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Three Strategies for Managing through Economic Change

Abstract
[Excerpt] Since its implementation, strategic human resource management has helped assuage the age-old conflict formerly accepted to be inherent between employees and management. The interests of these two parties have long been erroneously assumed to be diametrically opposed. Nevertheless, the development of effective strategic HR policies has demonstrated that gains for both businesses and workers can be made by pursuing more collaborative relations between the two. Specifically, the utilization of effective talent management and career development strategies has gone a long way toward producing a more amicable relationship between employees and management, and by extension more productive and profitable firms.

Keywords
management, growth, economic change, strategy, human resources

Comments

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CORNELL HR REVIEW

THREE STRATEGIES FOR MANAGING THROUGH ECONOMIC CHANGE

John Sherman

Since its implementation, strategic human resource management has helped assuage the age-old conflict formerly accepted to be inherent between employees and management. The interests of these two parties have long been erroneously assumed to be diametrically opposed. Nevertheless, the development of effective strategic HR policies has demonstrated that gains for both businesses and workers can be made by pursuing more collaborative relations between the two. Specifically, the utilization of effective talent management and career development strategies has gone a long way toward producing a more amicable relationship between employees and management, and by extension more productive and profitable firms.

In times of economic prosperity, firms have been able to provide better benefits and wages to their associates as a way to both retain top talent and improve employees' standards of living. Such a win-win proposition increases worker satisfaction and productivity, but obviously is limited to good financial times.

During times of economic hardship when wages and benefits stagnate, tensions between workers and management resurface as firms are forced to hold back compensation increases or lay off employees. This poses a dilemma for HR managers: how can you retain good talent and keep employees motivated in the face of not being able to offer improved compensation?

When economic conditions are deteriorating it is imperative for firms to cut expenses in order to remain viable. Executing an effective talent management system is the key to optimizing performance of each and every employee in an organization, which is especially important during harsh economic times. Therefore, firms should have ready a recessionary talent management plan that can provide employees with the increased satisfaction that wage raises normally bring, while reflecting the economic constraints the company faces.

Mike Lynch's cartoon humorously depicts an important dynamic of modern industrial relations that many managers fail to recognize—the discrepancy between employees' and employers' needs and expectations. In day-to-day operations, it is easy for the parties to forget that their interests are one and the same—a healthy and more profitable business. If HR managers could bridge the gap that exists between labor and management, it would diffuse much of the resentment that employees sometimes harbor in tough times.

Unfortunately, many employers fail to understand where their employees are coming from, particularly in hard financial times when the traditional dichotomy between

employer and employee interests becomes ever more salient. To that end, there are several strategies HR managers can implement in order to address this problem.

Strategy 1: Cultivating a Communication Workplace

Staying on top of what employees want requires a keen ability to relate well to the needs and ideas of others, which all too many managers lack. This is understandable because when businesses face the countless challenges and rigors of day-to-day operations, even the most intuitive manager can forget to keep in mind how employees are feeling. More importantly, it is easy for managers to forget that often times, what is best for its employees is also what is best for the firm. Therefore, in times of economic hardship it is imperative that HR personnel cultivate the workplace value of communication and mutual understanding.

A good way to get around the institutional barrier that tends to separate management from workers' concerns is to actively solicit employees' opinions on the work they are doing. Worker involvement committees are an effective strategy for accomplishing this goal.

Many firms make the mistake of fostering animosity between employees and management when economic markets are tight by doing things such as laying workers off before other cost-cutting options are exhausted. By alienating workers in this way, firms are being penny-wise but pound-foolish. During hard financial times, it is especially important for firms to keep employees happy, as this strategy yields long-term dividends.

Poor financial conditions dictate that businesses focus on short-term objectives in order to survive hard times. This presents another challenge to businesses, as employers must balance out these short-term interests with long-term goals. For example, consider the no-layoff-policy of commercial airliner Southwest Airlines. Although it constrains the firm's flexibility in hard times, it pays off in the long run because this practice helps keep employee productivity higher than its competitors—a clear competitive advantage for the company.[1]

Strategy 2: Signaling through Recruitment and Promotions

A second talent management strategy HR personnel should focus on during times of financial hardship is recruiting. While strategic HRM utilizes both external and internal recruitment strategies, firms should focus on the latter in order to reduce turnover and bypass the costs associated with external recruiting.

Sometimes companies find themselves following incongruous hiring patterns that do not align with the their larger human resources objectives, doing things like shedding employees in one department while simultaneously looking for new workers for another. Such a pattern not only wastes valuable resources by adding direct and indirect training costs, but it also undermines employee confidence in the security of their jobs, eroding

motivation and enthusiasm, which again, are especially important in times of economic hardship.

Aside from promoting internal alignment among HR practices, recruiting from within a company yields additional benefits for businesses. For one, promoting existing employees sends a signal to the rest of the workforce that the company values them and that their continued hard work will eventually pay off. Additionally, employee loyalty can be cultivated and employee longevity encouraged by allowing greater room for upward mobility within a company. These advantages can make for substantial gains in worker productivity.

It is important to emphasize, however, that expanding non-pecuniary benefits is something that has a limited capacity; that is, a company can only increase employee job control by so much. Therefore, HR managers should try to save opportunities to give such benefits for times when it is impossible to give employees wage or benefit increases; that is, in times of financial strain.

Strategy 3: Promoting Employee Empowerment

One final strategy that HR personnel should focus on in times of financial hardship involves increasing employee autonomy. Employers can increase employee job satisfaction by giving workers more freedom, more say on the job, and increased job security.

Research shows that increased employee participation and freedom increases workers' devotion to a firm. Consider the "Exit, Voice, and Loyalty" model proposed by Harvard economist Alfred Hirschman. His findings suggest that employees who can *voice* their opinions within organizations become more *loyal* to them and are less likely to *exit* them.[2]

Giving employees a greater say on the job is one of the best motivators available to the HR manager. Rather than simply giving employees a bigger paycheck, by extending them company "ownership" through increased voice and participation, the employee-firm relationship will be fortified. And consequent implications are enormous. Not only will the firm save money by reducing turnover, but the institutional memory and experience that is maintained will also yield dividends. All these are consistent with the goals of talent management.

Conclusion

When executed effectively, the three strategies above form a coherent recessionary talent management strategy that will help a firm retain its top talent and keep employees happy during times of financial hardship. In order for a firm to get the most out of these strategies, it must make sure that they are (1) internally aligned so that they support one another and (2) externally aligned so that they support the larger strategic human resource management objectives of the firm.

Lastly, as with any human resources initiative, in order for a recessionary talent management strategy to succeed, it needs the complete support of top management. Without such institutional inertia, even the best plan to retain talent and motivate employees will fall short.

When times are hard, management needs to take extra precaution to ensure that it is still properly motivating its employees with strategic talent management initiatives. Unlike the supervisor in Lynch's cartoon, effective HR managers should identify with rather than alienate workers. Doing so will help businesses make it through hard times and promote the needs of their employees, fostering a more effective corporate culture and tapping the full potential of HRM. א

John Sherman is a student at Cornell University, pursuing a BSILR at the School of Industrial & Labor Relations. This essay was runner-up in the Cornell HR Review 2010 Essay Competition.

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1. Jessica Dickler. "Employers: No Layoffs Here," *CNN*. December 11, 2008. http://money.cnn.com/2008/12/09/news/economy/no_layoffs/index.htm

2. Albert Hirschman. "Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations and States," *Harvard University Press*, 1970.