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Nathan J. Sheranian
Cornell University

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Abstract
[Excerpt] Times of economic hardship and prosperity both pose unique challenges to companies and their talent management practices. On one hand, while companies are experiencing contraction, employers may neglect motivating and developing their employees. Conversely, during periods of expansion, companies may set themselves on an unsustainable course that may lead to dramatic consequences when leaner times prevail. Indeed, it is easy for companies to fall into talent management traps both in times of growth and recession.

Keywords
management, growth, contraction, economic hardship, talent management

Comments

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CORNELL HR REVIEW

A FINE BALANCE: EFFECTIVELY MANAGING GROWTH AND CONTRACTION

Nathan J. Sheranian

Times of economic hardship and prosperity both pose unique challenges to companies and their talent management practices. On one hand, while companies are experiencing contraction, employers may neglect motivating and developing their employees. Conversely, during periods of expansion, companies may set themselves on an unsustainable course that may lead to dramatic consequences when leaner times prevail. Indeed, it is easy for companies to fall into talent management traps both in times of growth and recession.

Traps of Economic Hardship

When a firm goes through a rough period, it may elect to lay off workers as a way to cut costs. Reductions in force are a necessary part of a competitive firm's business strategy. However, the remainder of the workforce may be left anxious and uncertain about the future—especially when other benefits, incentives, and perks are also cut. Firms may also decide to reduce recruiting efforts, and employee training and development programs.

For firms, these reductions in costs may seem like logical and necessary measures to ensure the financial health of the organization. But although these decisions may abate current crises, the implications related to the future pipeline of talented employees may present a new set of challenges. That is, if a company is able to pull itself out of financial trouble, there may not be enough skilled or qualified employees left to lead the company on a continued upward trend. Moreover, management may believe that the survivors feel "lucky" to have been kept on the payroll of the firm and will work hard to ensure job security and the success of the company.

On the other hand, employees may view these reductions as arbitrary and worrisome, which may negatively affect their performance. Therefore, in order to bridge this perception gap, employers should never play the "you're-lucky-you're-still-here" card. Indeed, employers must never assume that an employed worker will be engaged and productive, especially when uncertainty is mounting.

Cuts in benefits, incentives, and other perks should be done thoughtfully, keeping in mind how these changes will impact the workforce. Employers should not ignore what motivates the remaining workers to be engaged and productive. Ignoring such issues may set organizations on course to an uncertain future.

Traps of Economic Prosperity

Rapid growth is exciting. The future looks bright and the organization confidently lays plans to achieve lofty goals. To meet these objectives, firms may over-eagerly engage in a recruiting blitz and quickly hire too many people, assuming incorrectly that these fat times will continue indefinitely. Such hasty staffing decisions may erroneously allocate human resources, which will actually act to stifle growth because having too many workers in the wrong places may gobble up productive capacity.

Excessive hiring in times of optimistic growth may create many unintended costly consequences such as cultural assimilation, team integration, training, on boarding and so forth. These efforts to increase headcount can divert important company resources, which could otherwise be used for continued revenue-building activity. Therefore, during times of growth, firms should ensure human resources are allocated in a pragmatic and utilitarian manner, with careful thought to where headcount additions will make the greatest and lasting impact.

Additionally, with profit margins increasing, firms may be tempted to institute unsustainable incentive programs and costly fringe benefits. Such benefits may serve to further employee engagement; however, if these fringe benefits are ever retracted (even for reasons not relating to contraction), employees may view such changes as a foreshadowing of negative things to come, which may lead to lower levels of employee engagement and morale.

Excessively generous bonuses and other forms of lucrative performance-based compensation programs may also help the firm meet its short term goals; however, when the competitive environment changes, it may be impossible for employees to reach the incentive requirements or the firm may no longer be able to afford these incentives, thus creating a disaffected and discouraged workforce if such programs are cut without a clear and compelling explanation.

In order to combat this hasty tendency to grow too quickly, firms need to constantly beware of over-confidence. Firms must consider *when*—not if—hard times befall the organization, how these talent management practices will be affected, and how employees will be impacted. Otherwise, the unprepared firm will be faced with painful decisions that could have been avoided through employing a more pragmatic approach to talent management.

A Fine Balance

In an ideal world most firms would choose to see consistent and managed growth rather than periods of rapid growth and steep contraction. However, the competitive landscape continues to morph as a result of innovations, economic recession and recovery, and increasing government regulations. Consequently, firms need to be better prepared than ever to respond to an ever-changing economy.

Organizations should carefully plan for additions and subtractions to the workforce because poor decisions in either direction can be costly and derail the organization from meeting its future goals. Moreover, incentive programs and fringe benefits should be thoughtfully devised to motivate employees to reach a high and consistent level of productivity.

Finally, the best way to deal with both seasons of prosperity and uncertainty is through open communication with employees. Employers should inform employees of what changes will be made and why. Without a clear explanation, employees may be left anxious and nervous about the future, which may decrease levels of engagement and productivity. Furthermore, firms should actively solicit ideas from employees regarding their needs and ideas for how to respond to a changing environment.

Often employees have valuable knowledge which may not be shared unless given an opportunity to do so. Open communication will provide firms with the knowledge necessary to determine what motivates employees, where resources should be allocated, and how employees are responding to times of worrisome contraction and exciting growth. ℵ

Nathan J. Sheranian is a student at Cornell University, pursuing an MILR at the School of Industrial & Labor Relations. This essay was the winning entry in the Cornell HR Review 2010 Essay Competition.