TenStep, Inc.

TenStep Supplemental Paper

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Tiding over Uncertainty

In today's highly competitive marketplace, it is commonplace for organizations to optimize their returns on manpower capital also. In testing times, such as a downswing in economy, organizations adopt human resource management practices that are significantly different from those they used when the economy was booming. The key focus in the lean periods would be to take up HR initiatives that enhance the company's ability to tide over the prevalent economic decline and emerge as a strong competitor when the situation improves.

HR strategies to counter economic downturn

One of the key functions that is affected in an organization during an economic recession is human resources management. Some of the common measures adopted while formulating HR strategies in such situations include:

1. *Transparency in communicating with employees*: Downsizing is one of the most difficult situations for an HR department to face. However, keeping the employees unaware of the same only heightens the stress. HR professionals must convey in detail the uncertain phase of the business to employees at the earliest after changes are effected. It is important to remember that employees do not demand assurance, but they would certainly like to know the state of the organization so that they are better prepared mentally to face the same. The HR department should invite employees for participation and ideas. Once things start improving after the change is implemented, be sure to convey the same to the employees. Most of the 'adaptive' organizations like Motorola adopted this strategy to a high degree of success when they passed through a very lean phase earlier this decade.
2. *Survival of the fittest*: Under difficult economic conditions, HR departments retain the best employees and release the misfits at the earliest. Though this policy is followed when circumstances are good, it is even more so when the company's revenues and the economy are on a decline. In the prevalent market environment where only the fittest survive, no organization could afford the luxury of having poor performers in its workforce.
3. *Avoiding layoffs by adopting proactive HR measures*: Investment on the workforce in the form of salaries, benefits and training accounts for more than 60 percent of a company's costs. Layoffs prove uncomfortable and costly for organizations to resort to and are very upsetting for the employees. Such an unpleasant situation could be minimized to a great extent with better tracking, planning and implementation of pro-active HR initiatives. Parameters that indicate an excess workforce in the organization include:
    - HR Profit - How many employee dollars are invested to earn one dollar of profit?

- Revenue per employee – Conduct a trend analysis on the same to know if there has been an increase in the revenue per employee. If it is a decline, identify the reasons for the same.
- ROI of HR investments – Each acquisition by the organization, be it technology, training or other related services, should be executed only after conducting a detailed cost-benefit analysis.

4. *Outsourcing all the transactional/operational HR activities of the organization*: Outsourcing of routine and non-strategic activities to third party vendors enables the organization to convert fixed costs into variable ones. It also enables the HR department to shift its focus to more value-added and strategic inputs. Grasim Cements, the Indian cement giant, has successfully implemented this strategy by outsourcing most of its operational HR activities to Mafoi Consultants in an effort to bring down overhead expenses.
5. *Cutting expenses by offering alternative compensation packages*: Difficult economic situations force organizations to take up innovative and alternative pay practices. To cite an example, as an alternative to retrenchment, non-critical employees may be offered a four-day work week that would cut salary expenses by 10 percent in a single quarter. However, while implementing such alternatives, ensure that executive compensation is cut before enforcing the same on the non-critical employees. In terms of pay hikes, the HR department may extend the time between raises, for example, from once a year to every 18 months. Employees may also be given the option of lump-sum payments in lieu of salary hikes and spread those payments over two or three quarters. This will ease the pressure on salary budgets for the forthcoming years, as base salaries do not increase. A majority of the Indian software and steel companies successfully implemented this strategy during 2002-2004 when the market was on a downswing.
6. *Value employees' performance and time*: With a smaller but superb workforce, it is essential to implement a performance culture that sets high benchmarks and rewards success with appropriate benefits. The focus should be on employees performing their best over a sustained period. This will necessitate longer working hours for the staff. In such a situation, organizations should be very tactful while asking employees to spend their time for tangible outcomes.
7. *Maintaining high motivation levels*: In a depressing business environment, it is very important for organizations to maintain high motivation levels among the employees. The management should raise employee morale by celebrating tangible progress like getting new clients or new contracts or rise in profits or sales.

As the adage goes, "When the going gets tough, the tough get going". This is no different in organizations too. Survival in difficult times is a matter of how well organizations adapt to the situation, particularly in terms of its employee relations and man-management policies. Once the HR strategies are re-formulated to meet the new challenges, organizations would be able to tide over the crisis and become more competitive when the economy improves.