

HR in Recession: what are the prospects and priorities for HR management in 2009?

Whither HR?

'Global Crisis set to Decimate HR'

This was how one HR magazine headline-writer cheerfully chose to summarise our prospects for the New Year in late 2008.¹ An IES member organisation in the public sector observed recently that a 'form of paralysis has taken hold, manifested by extreme budget restrictions'.

The recession will clearly dominate HR and employment issues in 2009. There will be much discussion about its likely length, reach and impact, with commentators seemingly trying to outdo each other in terms of the gloominess of their forecasts. Few organisations in any sector will be immune, even if the effect might be delayed for some, and present new opportunities for others, as organisations and people 'downshift' and re-appraise their priorities and spending patterns.

But though the pundits are universally depressed with their economic prognostications, the implications they draw out for HR and people management are far less uniform and at times seemingly contradictory, in terms of both overall prospects and specific priorities. So just what are the implications and where should we be focusing our under-pressure resources in 2009?

There appear to be three big, inter-related questions that the current situation presents for HR directors and professionals:

1. Will organisations treat their human resource any differently this time round compared with previous downturns, and in particular will there be any room

to focus on the future in the wake of more immediate 'fire-fighting'?

2. How will the priorities and focus of HR activity need to shift to reflect the change in the economic situation and sentiment?
3. How will HR as a function fare in the recession, moving from a position where its policies claimed high levels of attention in a tight labour market and booming economy, to one where activities such as talent management programmes and 'great-place-to-work' initiatives might seem fanciful indulgences, when UK unemployment is forecast to hit three million by year end?

Together: will employees and the HR function be seen primarily as a cost rather than an asset in 2009?

Past versus current priorities

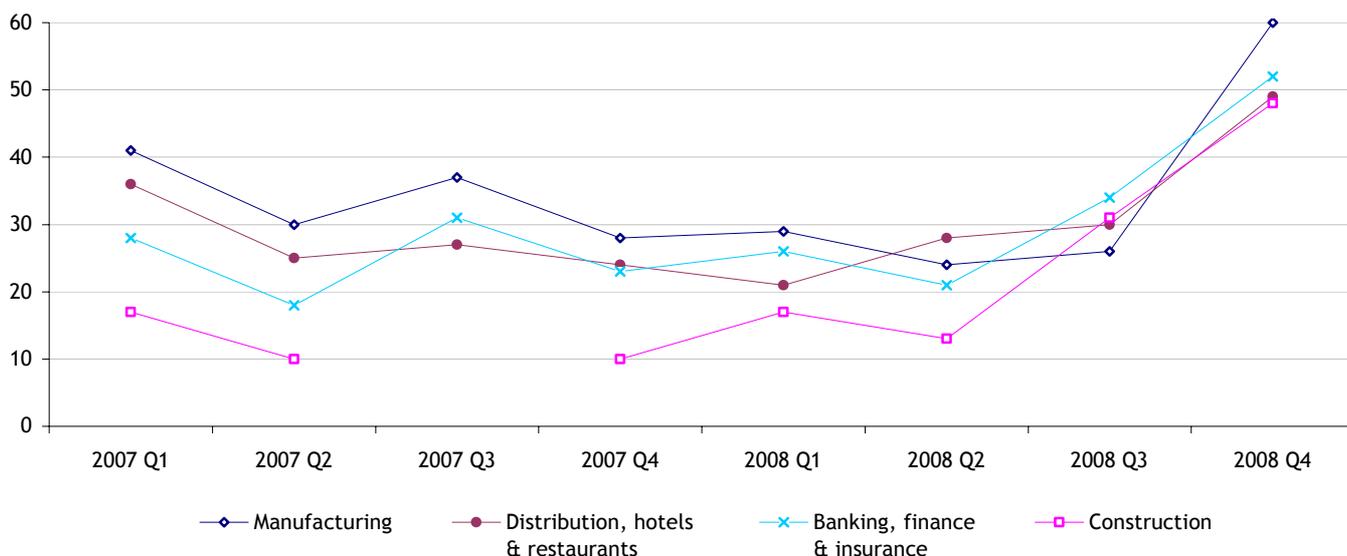
HR has prospered in the last ten or more years as the 'war for talent' has become more intense and theories of high performance through employee engagement become popular. IES produced some of the first UK research² to replicate North American findings of a service-profit chain, that in a predominantly knowledge and service-based economy, HR practices can engender high levels of employee engagement, that in turn help to create high levels of customer satisfaction, which drives high financial performance. One recent research analysis³

¹ Pitcher G (2008), 'Global crisis set to decimate HR in 2009', *Personnel Today*, 8 December

² Barber L, et al. (1999), *From people to profits*, IES Report 355

³ Combs J, et al. (2006), 'How much do high-performance work practices matter? A meta-analysis of their effects on organizational performance', *Personnel Psychology*, Autumn: 501-528

No sector is spared the increase in redundancies (000s)



Source: Labour Force Survey

found over 90 studies around the world showing similar associations between so-called high performance HR practices and organisational performance.

The HR function has had to emphasise strategies on attraction, retention and motivation – eg employer branding, family-friendly policies, performance pay and flexible benefits, and a revival in succession planning and leadership development under a new talent management heading. People have increasingly been at centre stage, and the HR function has been trying to pull off the difficult trick of attempting to position itself as the specialist expert in, and ‘business partner’ for, encouraging their contribution, while simultaneously engaged on its own internal re-structuring and efficiency drive.⁴

Now there are some obvious shifts in priorities under way, and we would highlight three issues and areas for particular attention. Charles Handy called ours the ‘age of paradox’ and finding the right, tailored balance amidst these competing and potentially contradictory pressures seems to us to be a key requirement for HR professionals this year.

Current versus future needs, cutting and growing

HR is having, literally in some cases, to dust-off and update its ability to downsize effectively. As the shown in the graph above, it is having to (re)learn about redundancy packages with severance having a growing

impact across most sectors. It means too that outplacement services will have to be called upon again. It will have to dispense with staff with dignity while keeping up the morale of the remaining workforce and recognising ‘survivor syndrome’ (ie the guilt that ‘survivors’ may feel if they avoided the cull). To avoid these problems a premium will be put redeployment and retraining methods.

In fact, the shift in many cases is less acute than might at first appear as, with the increasingly frequent waves of corporate and government reorganisations in recent years, the ‘three R’s’ for HR has become a simultaneous process of restructuring, redundancy and recruitment. The emphasis has obviously shifted to the middle facet. But Manpower’s latest survey⁵ of the employment market found the majority of employers still holding steady on staffing, and regarding job cuts very much as a last resort, with many also opportunistically looking for talented recruits in the rapidly swelling numbers of about-to-be and recently unemployed. One local authority we have worked with, for example, has actively been targeting talented people unlucky enough to be in wrong place at the wrong time – following an inquiry into another council’s social services department (an area notorious for serious skill shortages). Teacher training bodies have had similar success with swiftly-organised recruitment fairs in the City.

⁴ Reilly P, Williams A (2006), *Strategic HR: Building the capability to deliver*. Aldershot, Gower

⁵ Manpower, (Fourth Quarter, 2008), *Employment Outlook Survey UK*, available at: <https://portalqa.manpower.com/wps/wcm/resources/file/eb476b44758408f/MEOS%20Brochure%20UK%20Q4%2008.pdf>

People: assets versus costs

The question more fundamentally in these tough times, is will HR be able to use the position it developed for itself in the last decade to argue the case about protecting skills, retaining, nurturing and rewarding talent, and keeping those policies (and their costs) in place that motivated and engaged their people?

Despite the gloom, the initial signs are positive, with the mini-downturn post 9/11 in 2001 having shown a number of employers that redundancies, as well as the immediate and often under-estimated costs involved, can create longer-term damage in respect of the loss of talented employees and future leaders, and have a wider detrimental impact on morale and trust. It can also affect the external brand image. Organisations are especially vulnerable where they cut graduate recruitment programmes. The impact is felt on university campuses for some time to come.

Charlie Mayfield, Chairman (and ex-Director of Personnel) of John Lewis was emphatic recently that despite a quarterly drop in sales, they are 'pursuing a long-term approach to growing the business – we're not into making knee-jerk cuts in staff costs just to protect short-term profit'. Less obviously perhaps, Andy Harrison the CEO of easyJet emphasises the need for being open with staff about the economic situation, whilst remembering that the firm has 'five pillars or principles that are fundamental to the business', including 'being a great-place-to-work; whatever uncertainty we go through, these do not change'.⁶

Planning and innovating

But as well as promulgating a more HR-orientated employer philosophy, will HR, even if the business news is grim, be able to come up with practical ideas and innovative solutions to the current cost pressures, to think ahead about what will be needed after the recession and public spending cuts, even if that seems an awfully long-way off right now? Just as it is those companies that prepared for the downturn that will come through it in the best shape, so those that anticipate the upturn will be those that most quickly profit and prosper.

Again, the early signs are good, with employers investigating and following the example set by firms such as JCB with their working hours and pay cuts as an alternative to redundancies; or the firm that suggested deferring pay increases and putting money into a pot for later distribution if business results warranted it, and Vauxhall with their offer of lengthy sabbaticals in a

bid to defer staffing costs until a new model comes on stream, to hopefully stimulate market demand and revenues once again. One of the disasters of previous recessions was that staff left that were necessary to the effective running of the organisation. It makes no sense firing a valued group of people on the Friday, only to take them on via contractor on the Monday – as one organisation we know did.

We need to be smarter and braver than that: smarter because our workforce planning should be telling us what future resources (quantum and skills) we require; and braver because we must protect vital assets even in the face of blinkered 'number-crunchers' with their simplistic cost profiles. One company director told us, 'HR needs to be the court jester to the king: to tell him what everyone else knows, but no one dares to tell.'

(Re)learning skills in workforce planning and OD and applying them through the new range of IT tools available will be at least as important for HR professionals this year as brushing up on their knowledge of employment and redundancy law. We should be turning to more sophisticated methods – like scenario planning and work levelling – to challenge crude and short-term accounting assumptions and simplistic downsizing tactics.

The necessity of dealing with the volume of employment legislation in the last decade has possibly led us to over-emphasise the role of HR as regulator and enforcer, rather than as a source of innovative ideas. 'What's this doing coming from HR?!' was one board's reported response to an HR director's proposed programme to improve creativity and reduce bureaucracy across the company.

Creativity and regulation, though, can come together in the area of selection for redundancy. Here the organisation does want to protect itself against litigation and employee relations aggravation, but it also wants to staff the business with those best equipped to deliver a successful firm. So HR should lead the organisation in considering how best to balance the management of legal risks with innovative ways of selecting those to stay that need to be retained.

Yet the more an employer is 'up against the wall' the more HR will have to come up with innovative strategies to reduce cost and add value – changing the skill mix, exiting from expensive benefits that don't deliver sufficiently, redeploying staff (as John Lewis have been doing from low-demand areas like furniture to higher-demand areas like fashion), moving work to lower-cost locations whilst still retaining quality. Even here an eye should be turned to the longer-term, and what forms of work organisation, knowledge sharing, employee involvement processes and such like will carry the organisation forward to a successful future.

⁶ CIPD (2008). 'Leading through uncertain times', *Futures*, Issue 1, June

Teams and individuals

One interpretation of the current recession is that it will magnify the trend to a more highly focused, even reductionist view of talent and its management, in line with the original McKinsey definition of the term. *The Economist* for example, forecasts that as recession deepens: 'a more elitist shift will occur: companies will worry about the performance of those at the top of the pyramid, while everyone else will be managed like a commodity'.⁷

HR will undoubtedly be helping their employer to identify and address the needs of the most talented, high-performing individuals. We have already seen this in the just-completed end of year performance reviews and pay round, as companies have held back or removed general awards but ensured that their 'stars' are recognised and rewarded. Broad brush, often grade-related benefits such as share options or development programmes are being used more selectively lower down the organisation to help recognise and retain key talent.

Whatever situation the organisations is in, this may be the moment to be clear about why people want to work for you, and to address the issues of individual under-performance that still bedevil many organisations, despite their sophisticated IT-enabled appraisal systems. When improving organisational performance is critical and you require imaginative thinking, you really have to have flexible people who are committed to the success of the organisation.

So why do your people want to 'strive' as well as to 'stay', to use the engagement formula employed by Royal Bank of Scotland? These are the outstanding people you must nurture, almost irrespective of the business situation. You can exit or lose those who are only with you because it is easier to remain, are unhireable elsewhere or simply too frightened by labour markets conditions to leave. And besides attitude, there are their skills, that will be even more precious in the future. Think of the outstanding sales person, the specialist IT folk, or the scientist on the edge of a breakthrough.

Fairness and performance

And yet the healthcare assistant, coffee shop barista, call centre agent and hairdresser are at least as representative of the new post-industrial economy as the banker, the IT architect and accountant. Just as a balanced performance scorecard remains essential to organisations' survival and long-term success, whatever the short-term financial pressures, so successfully engaging a much broader portion of the workforce, the 'engine-room' of the organisation (many of whom may have had less opportunity and training than your 'stars') is key to the performance of many service-based employers.

This will be much harder to achieve in a challenging economic climate, where profit sharing and general staff bonus schemes may not be paying out, and where job security is in peril. IES research highlights the varied and organisationally-specific mix of non-financial and financial factors that contribute to staff feeling valued and involved, so as to commit to your organisation and perform to their best in it.^{8,9}

The last decade's developing attention on the employer brand and total rewards will become more important than ever to HR in recession, and those organisations in which this activity has been more PR than HR orientated will be ruthlessly exposed. Could 'X Factor'-style talent initiatives and charity secondments be more relevant to the future performance and market differentiation of many employers than traditional high-potential training programmes?

Moreover, with the FSA and parliamentary investigations under way, into the financial crisis and the role that prevailing City incentive structures played in bringing it about, the recession will re-emphasise the importance of fairness in employee motivation and HR management. Segmentation of staff and their HR management will continue to be necessary, but so will developing and retaining a sense of common purpose and sharing in success (or suffering). According to Andy Bond, Chief Executive at Asda: 'I don't see this as a short-term response to recession but a fundamental shift – the economic outlook for 2009 is like nothing we've seen in our lifetimes ... you can feel the pressure

⁷ *The Economist*, 'The World in 2009', available at: www.economistdirect.com/engine/shop/product/WIN09/The+World+in+2009

⁸ Robinson D, et al. (2004), *The Drivers of Employee Engagement*, IES Report 408

⁹ Reilly P, Brown D (2008), 'Employee Engagement: What Is the Relationship with Reward Management?', *WorldatWork Journal*, November

to be more prudent, more humble when the less fortunate are losing their jobs and their homes.¹⁰

'There won't be a (general staff) bonus: I certainly won't be getting anything over and above what my staff enjoy' was how his M&S counterpart Sir Stuart Rose responded to a weaker set of results in January.¹¹

Employers shouldn't need the Equalities Bill or further legislation to force them to review, monitor and manage their pay and HR generally on a fair and non-discriminatory basis, when reciprocal fairness and trust is so central to a healthy psychological contract at work. Mayor Boris Johnson's recent letter to London's Premier League clubs requesting that they pay a 'living wage' to the catering, cleaning and support staff who look after their highly-remunerated football stars may be an extreme example. But more HR and reward directors and remuneration committee chairs will be forced to think much more seriously about internal pay relativities and equity in the months ahead.

Nor should HR's efforts on general employee health and well-being diminish in any way, as the government proceeds with its 'fit note' GP pilots, and as EAP lines report increasing levels of employee stress occasioned by job uncertainty and the growing levels of debt. Indeed, IES's own research on 'financial wellness' points to the implications of having staff distracted by money troubles.¹²

Proactive partnering versus remote and bogged-down HR

The pressure will be intense on HR and other supposed 'support' functions to improve their own processes and efficiency and deliver essential cost reductions this year. Slick administration and core processes, whether delivered in-house or outsourced, are of course essential. The recession should also encourage a just-detectable and necessary trend towards simplification in HR processes and plans, abandoning some of the gimmicky and over-engineered aspects of those designs, and focusing on what's really important and makes a difference to people and their management.

The focus on human capital measurement, which seems to have ebbed and flowed in the past decade, partly in

response to wavering government and reporting bodies' encouragement, now becomes even more essential too, so as to demonstrate that HR and the policies and processes we design really are making a bottom line contribution and delivering business benefit. The mix of HR investments in many organisations can undoubtedly be improved, so as to enhance employee engagement and deliver greater organisational return. IES's recent research on this topic¹³ provides evidence of a growing number of encouraging exemplars of evidence-based HR management for other organisations to follow, as well as a practical model for human capital management and measurement.

But our recent study on the 'customers' views of HR¹⁴ presents the fundamental opportunity, but also the challenge for the HR profession in the UK, a challenge that is intensified by the economic and financial malaise. 'Line' directors, managers and employees generally seem to have been convinced by and 'bought' the message about HR restructuring and focusing more on strategic value-adding activities. As one told us, 'as managers, we can get caught up in what we are trying to do in the business: HR helps us to remember we are dealing with people', especially when tough conditions and decisions can unwittingly encourage a low-communication, 'bunker' mentality amongst our leaders.

But while our customers accept, indeed welcome the approach, what they question is the delivery. Implementation of our integrated and strategic expertise that really challenges and adds value at director level, and genuine line manager partnering, training and support at the 'sharp-end' of first-level leadership, so as to put our HR ambitions and policies effectively into practice, continues to be the Achilles' heel of too many HR functions, and one that jeopardises all the gains made in the past decade.

Over-attention to administration and regulation has in some cases reinforced a lack of pro-activity, and even a bias towards fault-finding rather than action, a lack of results-focus in HR, which is perceived to be an increasingly 'bogged down' and 'remote' function by many of our customers. 'The large majority of staff does not know what HR does ... they could just walk around more' – was one senior manager's sobering assessment and advice in the IES research.¹⁴

¹⁰ Quoted in Wood Z (2009), 'New year, new look for UK high street', *The Observer*, 4 January

¹¹ BBC News (7 Jan 2009), *M&S Boss: 'I won't take pay rise'*, <http://news.bbc.co.uk/go/pr/fr/1/hi/business/7816414.stm>

¹² Cox A, Hooker H, Markwick C, Reilly P (2009), *Financial Well-being in the Workplace*, IES Report 464

¹³ Robinson D, et al. (2008), *Human Capital Measurement: Approaches, issues and case studies*, IES Report 454

¹⁴ Hirsh W, et al. (2008), *What Customers Want from HR: The views of line managers, senior managers and employees on HR services and the HR function*, IES Report 453

Delivering HR's vision in tough times

So HR will have to get even closer to, and genuinely partner with, the business over the coming year. It will need to think and speak in organisational terms that reflect the exigencies of the situation. HR should continue to ruthlessly improve its own processes to make them more efficient and effective. It will need to devote all of its resources and growing capabilities to the addressing the pressures and paradoxes of the near-uniquely difficult set of economic conditions now prevailing, which look set to continue for at least 12 months and possibly/ probably much longer.

As David Fairhurst, the Chief People Officer at McDonalds aptly summarises it: 'there's going to be a lot of pressure to cut back budgets, but those HR departments (and employers) that maintain the focus on core, longer-term objectives will emerge as successful in the long run'.¹⁵

The challenge for HR will therefore be to deal professionally and sensitively with downsizing; innovate in work organisation and processes; ensure that talent and skills for the future are retained; and plot the course for the time that will come after the recession, having the right policies and practices for the new slimmed-down and much-changed world.

It must keep its focus firmly on added value, but as another business director told us: 'HR's overall game can be raised – it needs to be more ambitious for the business and offer a vision for how the business could be.'

And in 2009 more than ever, because of not despite the economic climate, that has to be an engaging vision and offer for every employee, not just those directors.

Duncan Brown
Peter Reilly

¹⁵ Quoted in HR Zone (11 December 2008), *HR Predictions 2009: Exclusive insight into the year ahead*, available at: <http://www.hrzone.co.uk/cgi-bin/item.cgi?id=192305>

About IES

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Our approach is based on:

- building, leveraging and sharing the evidence-base
- independence, objectivity and rigour
- considering the whole people system not just the individual parts
- delivering practical, sustainable business benefits
- building our clients' capabilities rather than their dependence.

Whatever your professional and HR needs are today, get in touch.

If you would like to talk further about dealing with the issues raised in this paper or any of your HR challenges (be they reward, development, planning, motivation etc), then please contact:

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