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Title

DEALING WITH EMPLOYEES IN THE COURSE OF DEPRESSION

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Abstract:

The repercussions of worldwide depression was also felt in India in the year 2009. The industrial output and market demand fell sharply, resulting in a significant increase in unemployment. It was severe and led to many employees losing their jobs and salary cuts. Based on extant literature sectors like construction, telecom, business services and manufacturing -were particularly vulnerable to depression. This has led to the research question in the mind of the researcher as to examine the impact of depression on HR practices of organizations particularly in the telecom sector.

Key words: Depression, Human Resource

Introduction:

The financial crisis of 2009, triggered by the collapse of the US subprime mortgage market, has led to significant losses in financial institutions and produced major liquidity problems for banks and in turn for firms and entrepreneurs (Peston, 2008; Cable, 2009). It is argued that a depression originating from financial disruption is generally severe and persistent (IMF, 2009) given the adverse impact on the supply of finance to firms, investors and consumers (Kitching et al., 2009a). As a result, industrial output and market demand fell sharply, resulting in a significant increase in unemployment, corporate bankruptcies and redundancies (Gennard, 2009). Sectors like construction, telecom, business services and manufacturing -were particularly vulnerable to depression. How do employees in these firms experience the effects of this economic shock? This is the main question guiding the researcher.

Given this challenging external context, a key business issue, for most organizations is the management of people. A central debate in HRM is the extent to which people are like other resources to be utilized and dispensed with when appropriate, or a distinctive type of resource requiring investment, development and nurturing. The latter view informs much of extensive literature on strategic HRM (SHRM) concerned with understanding the link between people management activities and organisational performance. The extant literature depicts the importance of effective HRM policies and practices which help firms to enhance their performance in key areas such as creativity, innovation, quality, flexibility and entrepreneurial behaviour (see for example Dabić et al., 2010), thus, HRM contributes significantly to the success or failure of high-growth entrepreneurial firms (Tanksy and Heneman, 2006). In tough economic conditions, firms tend to respond by introducing a wide range of cost reduction measures, and often this includes expenditure in key areas of HRM such as staffing levels and pay and rewards. We can also analyze empirically the difference between the HRM policies described and adopted by managers during depression and whether the same are shared with employees' views and experiences(Wright and Boswell, 2002). The main objective behind this research paper is to examine the impact of depression on HR practices of organizations in the telecom sector.

2. Literature review

2.1 Managing organizations in Depression

Large business enterprises possess greater discretion and more options, a superior resource base, greater market power and more strategic choices and responses during depression (Singh and Vohra, 2009). Management strategy in different sized firms can be thought of as the result of the interplay of internal structure (e.g. Firm size, organisational structure) and external environment (e.g. product market, market demand) (Edwards et al., 2006; Bacon and Hoque, 2005).Large firms face an internal uncertainty as a result of a large and diverse workforce during depression. (Nguyen and Bryant, 2004).In times of depression, the extant literature identifies two broad views with respect to how firms of different size are affected: the "vulnerability" and "resilience" views.In the vulnerability view, smaller firms are perceived to be more vulnerable and susceptible to external shocks whereas their larger counterparts are believed to be more resilient. During depression conditions, the growth and survival prospects of large firms is greatly hampered. (e.g. Chow and Dunkelberg, 2010; Fotopoulos and Louri, 2000).

In the face of a deep and prolonged downturn, firms are encouraged to adopt practices and devise strategies that build and strengthen capacity in the organisation, not only to survive in tough market conditions, but also to thrive in the future (Mohraman and Worley, 2009). One particular management function that has experienced the far reaching effect of the economic downturn and fundamental change is managing human resources (Acas, 2009; CIPD 2009).

Yet our understanding of how firms manage HR in depression remains embryonic, and even less is known about the employment related responseto economic depression across firms of different sizes (Latham, 2009). Only a limited number of studies have investigated the HRM practices adopted by small and large firms during depression. The objective of this paper is to understand how Organizations manage and respond to their HR in depression. One of the most contested HR issues concerns staffing levels. In practice, this might mean reducing the size of the labour force through a mix of layoffs, freezing recruitment, and natural wastage. Rones (1981) argues that the ability and willingness of the firm to use -and of employees to accept -layoffs are in the determination of redundancy related benefit. In this case, we expect to observe a firm-size effect on layoffs.First, employees in large British firmsare more likely to secure an enhanced redundancy compensation package that exceeds the statutory minimum and as such large firms might expect more success in attracting volunteers. Also, the trade unions play a critical role in protecting employees' interests and statutory rights through negotiated responses and collective bargaining agreements (Acas, 2009), and again this may make voluntary terms more palatable to employees of large firms.According to Gennard (2009) in depression, the sectors which were hit the hardest in UK, in terms of job loss and recruitment shrinkages were those which are associated with larger organizations including banking, automobiles, information and communication technology, chemical and pharmaceuticals, and retail. Finally, because of their larger workforce and more complex internal labour markets, large organizationsidentify more scope to make workforce reductions. Large firms may be reluctant to make layoffs which may reduce the firm's capacity to exploit opportunities in the upturn as it takes time and more money to acquire and mobilise resources (Brundage andKoziel 2010; Rao, 2009). They may also be concerned about the loss of knowledge and skills which may be difficult to replace, as well as the potential for reputational damage or industrial relations conflict.

2.2. Layoff:

Layoffs, while hotly debated, are not necessarily the first response to falling product demand and a general slowdown in the economy; traditionally firms opt for alternative employment-related adjustments, such as cutting employees' working hours before shedding jobs (Roche et al., 2010; Rones, 1981). The primary advantages of flexible workingarrangements are to avoid the immediate and short-run turnover costs of layoffs, as well as the longer term costs associated with recruiting, selecting and training new employees (Rones, 1981).

2.3. Pay Freeze:

Pay freezes or cuts are considered as another cheaper and effective alternative to laying off workers, avoiding losing valuable skills and saving costs for re-recruitment during recovery. The extant literature suggests three potential explanations for pay cuts during the recent depression, including imbalanced labour supply and demand (cf labor supply curve has shifted to the right), a reduction in the average quality of labor and the change in the composition of workforce (cf that shift towards more productive workers). Generally, firmsthat have experienced instability in sales and profitability are more likely to pass along some of this turbulence to their employees that reflected in increased volatility in earnings (Comin et al., 2008). We have argued earlier that a substantial decline in aggregate demand may impact more significantly on export-oriented large organizations, and therefore their employees' performance-related pay and income are more likely to be negatively affected.

Many firms are resistant to pay cuts and employees' wages may maintain downward rigidity even during the tough periods of economic depression (e.g. Yokoyama, 2004; Bewley, 1999). The dominant explanation is mainly situated in the analysis within the theory of wage rigidity developed by Solow (1979) and Akerlof (1982) that emphasizes morale. Bewley (1999) found that pay cuts were not preferred to layoffs by many firms and used only in circumstances where the firm experienced serious problems during the depression of the early 1990's, due to the belief that nominal wage cuts damage morale across the entireworkforce compared to the impact of more selective job cuts. Acas (2009) suggests that trade unions play a central role in negotiating pay freezes or cuts during the depression.

2.4 Reduction in expenditure on formal training and development:

Employee training and development during depression could serve as an important retention and reward mechanism to retain key talent (Mohramn and Worley, 2009), especially when pay costs may be under pressure. However, many firms choose to reduce budget allocations for training during a financial crisis on the grounds that it is expensive and not always essential in the short-term. However, formal training is generally more likely to take place in large firms than small firms (Gibb, 1997), mainly because larger firms are in a stronger position in terms of achieving economies of scale and having relatively sufficient financial capital and managerial expertise.While it is a known fact that employees in large firms benefit greatly from formal training development opportunities, it is likely that such expenditure might be cut during depression.

2.5 Reducing fringe benefits and rewards:

Firms facing a decline in demand and poor performance usually reduce employee benefits (Giancola, 2009). As with formal training and development, availability of fringe benefits and rewards, both monetary and non-monetary,are associated with the size of the organisation (Edmiston, 2007). Such benefits are much more common in larger firms which have the resources, knowledge, expertise, and desire tointroduce and administer them (Bacon and Hoque, 2005). Nevertheless, under adverse economic conditions there may be pressure to review and potentially cut costs associated with employee benefits (Latham, 2009; Shama, 1993).

2.6 Change in the use of temporary or agency workers:

During depression, the temporary contract and agency workers are more likely to be laid off while implementing retrenchment strategies (Green, 2008). And so, temporary workers experience higher levels of employment insecurity (OECD, 2009; Booth et al., 2002). For instance, Green (2008) shows that half of the temporary workers surveyed believed that they would be laid off and become unemployed within a year,compared with 85% of permanent workers.

3. Research methodology:

In order to explore the impact of depression on employees in the telecom sector, cross-sectional survey was undertaken. The sample comprised of 200 employees working with various telecom companies in Jodhpur city. The data was collected through a close ended non disguised questionnaire. The responses were measured using a five-point likert scale, 1- 'strongly disagree', 2- 'disagree', 3-'no opinion', 4-'agree' or 5-'strongly agree'. There were statements in the questionnaire, asking the surviving firms to identify at least one form of retrenchment action undertaken that impacted their workforce directly in order to survive the recession.They were‘compulsory redundancies’, ‘voluntary redundancies’, ‘temporary freeze on recruitment to fill vacancy’, ‘postponement of plans for expanding the business’, ‘freeze or cut in wages’, ‘reduction in non-wage benefits’, ‘reduction in basic hours’, ‘reduction in paid overtime’, ‘employees required to take unpaid leave’, ‘reduction in the use of agency staff or temporary workers’, ‘increase in the use of agency staff or temporary worker’, ‘reduction in training expenditure’ and ‘change in the organisation of work’.

The employees also were asked specific questions pertaining to their experience in any nine specified changes as a result of the recent recession. They include ‘wages frozen or cut’, ‘workload increased’, ‘work was re-organized’, ‘access to paid overtime restricted’, ‘access to training restricted’, ‘non-wage benefits reduced’, ‘moved to another job’, ‘contracted working hours reduced’ and ‘required to take unpaid leave’. Responses were evaluated on a dichotomous scale: 1-‘yes’ or 2-‘no’

4. Data Analysis:

Based on the data analysis, the major findings can be listed as below:

Most of the organizations surveyed had taken one or other action to survive depression. Freezes or wage cuts are the most common approach used by 40% of them as a tool to survive depression. Also, the depression has promoted a reduction in basic work hours in 15.3% of firms. According to the extant literature cutting wages and/or hours rather than workforce headcount during the recession, helps the firms to reduce labour costs, per employee. This has the advantage of avoiding incurring recruitment and additional training costs in a subsequent expansion. Also, postponement of plans for expanding the business is the third important action that was adopted by most of the firms (22.7%).

On the other hand, many firms resorted to reducingthe workforce size by making redundancies (24.5%). Also, many employers resorted to ‘reduction in non-wage benefits’, ‘reduction in paid overtime’ and ‘employees are required to take unpaid leave’. Likewise, there were changes made in the use of agency staff (decrease) by many organizations. Many firms also reducedthe training expenditure, and change the organisation of work.

Thus there were six main strategies undertaken to combat depression by most companies like ‘freeze or cut in wages’, ‘reduction in non-wage benefits’, ‘reduction in basic hours’, ‘reduction in paid overtime’, ‘take unpaid leave’ and ‘reduction in training expenditure’.

5. Conclusion and implications:

This paper highlights the impact of the depression on telecom firms and their subsequent HR responses undertaken by managersand experienced by employees. During depression, there is a decline in economic activity leading to a reduction indemand at the organisation level, and in turn a fall in demand for labor.Based on extant literature, there is a dualistic view with regard to how firms of are affected by the depression, we find that the economic downturn of 2008/9 has had a deeper adverse impact on the telecom sector as a whole. Our analysis also has implications for further studies. We can use the number of employees as a major variable for firm size and can further study the impact of depression based on firm size. However, further research may benefit from a multidimensional approach to the concept of size (e.g. total assets, total sales or revenue).In addition, depressions have uneven effects on different industries, sectors and regions of the country, which simultaneously shape the diversity of experience of recession and business responses along with the business size (Kitching et al., 2010; Athey, 2009). Also, results may vary across countries operating in different labour market conditions. These issues may also require further research.

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