Employee Retention in Recessionary times-Is this a big issue or priority?

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Abstract: Coming out of this recession, we are seeing businesses being more focused, cost effective and clearer on their markets, products, people and operational strategies. At the same time we are seeing improved reporting and metrics to help manage the dynamics of this new business environment. We are seeing an increased focus on grasping the strategic opportunities in order to strengthen the perco in position. While the M&A market is still slow, we are seeing some merger and acquisition activity where good value and business fit can be achieved. Companies coming out of the recession are demonstrating more resilience, are leaner and more efficient. Cash constraints can often be a barrier as businesses attempt to fund growth. Achieving a balanced tradeoff between cost, stocks and service levels coupled with getting the financing right is essential for long term sustainable growth.

Key Words: operational strategies, merger and acquisition activity, sustainable growth, global economic storm, market volatility

INTRODUCTION

Companies require reviewing and retooling workforce and talent management strategies as the economy improves. Well-planned personnel and talent management actions can help companies pilot the post-recession recuperation without losing key talent. “We survived the global economic storm, now we must set a new strategic apparatus based on the new global economy. “More specifically, many companies are streamlining their business models to increase efficiencies and enable swift action amid rapidly changing business conditions. Leveraging the advantages of global scale by shifting from geography-based business units to global units is another strategy gaining grip. The impact of the recession on business strategy has been significant. PWC’s 2011 Global CEO survey revealed an overwhelming majority (84%) of global business leaders having changed their company strategy in the past two years. These strategic changes were driven primarily by economic uncertainty, changing customer requirements and the growing cutthroat tensions and dynamics within their industry. In the light of these developments most CEOs said that they have had to adjust their strategies with a renewed focus on managing talent (83%), risk management (77%), investment decisions (76%) and ensuring that the organizational structure is fit-for-purpose (74%).

Retention during recession

According to experts, employers, recruiters and human resources are becoming worried about their job security, as the US credit crisis is worsening. In most of the companies be it an IT company or in the corporate house, the employers are often concerned about retention. IT companies, engineering firms and export oriented industries such as textiles, pharmaceuticals and automotive components are all likely to feel the pressure.

Being in a sales focused organization, the easiest thing for an employee to do is to wave his shoulders and say ‘recession-no business’ and suspend.

The question here is-what makes an excelling organization different from the others? Why do some organizations withstand pressure, while others collapse? This is the time when employees have to understand that they need to think differently.”

Talking about the challenges faced by most of the companies, RS Shanbhag, CMD of Value Points Systems said, “Recession purifies the system and helps in bifurcating the best from the rest. We are gearing up from today itself to prepare for the best to come and go cracking when markets turnaround from this recession. We are back to basics, redefining and fine-tuning every aspect of doing business.”

Navnita Nair, Manager-HR, New Wave Computing said, “In a recession, the challenge is not to retain employees but to motivate them to perform their 200 percent to achieve results”. Employers potentially are at risk of losing more than the hearts and minds of their employees; they’re at risk of losing their heads and hands. With a sturdy economy, more employees with a craving to leave their existing employer are now actively testing the job market. Rising turnover intentions, which built slowly but steadily during the recession, may create a resume riptide (i.e., a strong and steady wave of departures of some of the most critical employees) and hit companies at precisely the time when many
executives predict talent shortages in the very business units they depend on to drive growth and innovation.

**Meaning of Recession**

Recession is Negative Economic Growth for two consecutive quarters.” This means there must be a fall in real output for the period of six months. In US, recession is said to occur, whenever the national bureau of Economic Research (NBER) says – significant decline in economic activity spread across the economy, lasting more than a few months, visible in real GDP, real income, employment, industrial production and wholesale retail sales”.

**LITERATURE REVIEW**

Among worldwide employees surveyed, only 35 percent expect to remain with their current employers compared with 45 percent in 2009. Yes, nearly two out of three global employees surveyed (65 percent) report they are either unreceptively or actively testing the job market. If this doesn’t cause corporate executives to note it’s time for a change, perhaps this will: By a margin of more than 2:1 (45 percent to 20 percent), employees anticipate an increase – versus a decrease – in employee turnover in the next year.

What do these eying-the-exit employees see that their employers don’t? The 65 percent of employees exploring their profession options believe their companies’ corporate talent programs are lacking. In the hierarchy of what isn’t working, employees surveyed identify:

- **uncertain career paths – 57 percent believe their companies do a “poor” or “fair” job of creating career paths and challenging job opportunities,**
- **little leadership development – on average 35 percent rate their company’s leadership development programs as “poor/fair”,**
- **a lack of trust in leadership – 57 percent rank their company’s ability to effectively inspire trust “poor/fair,” with more women (35 percent) than men (22 percent) rating this ability as “poor”,**
- **difficulty retaining top performers – 50 percent believe their company is doing a “poor/fair” job and**
- **Inadequate training programs – nearly half (48 percent) believe their company is doing a “poor/fair” job managing and delivering these programs.**

**Recession and employees work performance**

It is essential for every employee to make sure that their performance is continually and substantially skilled in to ensure career growth and job security, in to reap the benefits that he or she would rightfully deserve. However, there are circumstances beyond one’s grasp that can affect an employee’s work performance. As such recession is one of the factors that may affect the performance of every employee within a company. During recession, the Human Resource Department of the company should think of strategies to keep their employees intact and assure them of benefit plans.

Recession is perhaps one of the serious problems a company can face. It is usually characterized by an extended decrease of activity in the workplace. To attend to issues and concerns during a recession period some American companies have thought of ways to save corporate budgets while operating in margins (McIntyre, 2008). In particular, the Financial Executives International has already reported how serious and how bad things are there during a recession period.

With the trends that are being caused during recessions, the reactions of big corporations against the slowing economy are easy to predict. Some possibilities that companies resort to include cutting job hiring processes, decreasing the capital spending, deferring Research and Development funds, and in worst case scenarios, freezing the payment for the employees.

Focusing on employee retention at time when companies are experiencing mass layoffs may seem like an oxymoron. Yet, high-level players will always be in demand. Inspiring, rewarding and retaining top players in an organization are the key business objectives in any economic environment. The best companies are those who focus on performance-driven reward strategies. The current US financial crisis has had quite an impact on India as well. The Indian IT industry has witnessed a slowdown of approximately 40 percent in recruiting new people.

Harish Jayachandran, HR, Apsis Technologies said, “We at Apsis are not much affected due to the economic slowdown of approximately 40 percent in recruiting new people. The current US financial crisis has had quite an impact on India as well. The Indian IT industry has witnessed a slowdown of approximately 40 percent in recruiting new people.”

**Impact of Recession:**

1. **Savings**

In a recession, private sector savings tend to rise. This is because people become more nervous to spend. The specter of unemployment encourages people to save more and spend less. However, the rise in private sector saving may be offset by a fall in public sector saving (i.e. government borrowing increases to try and stimulate the economy).

2. **Consumption**

Consumption will tend to fall because people are worse off.

3. **Investment**

Investment will fall as it’s highly cyclical. Therefore a recession causes a bigger % fall in investment than consumption. Confidence is very important to investment so in a recession, investment tends to dry up.
4. Government Spending
Automatic fiscal stabilizers will cause government spending to rise. e.g. in recession, government have to spend more on unemployment benefits. Also the government may follow expansionary fiscal policy to try and increase aggregate demand e.g. Spending on infrastructure projects.

5. Aggregate Demand
Aggregate demand is falling in a recession. Even though it’s an “employer’s market “with millions of capable people lookingfor work due to the recession, many employers are making these five costly employee retention mistakes.

HRM Innovations in Recession
The recession is about the creative Human Resources Management. The HRM Function is asked to bring new ideas, to change the HRM Processes and to develop or change the procedures and this effort has to be cheap or it has to cut the costs of the organization.”The HRM Innovation is easy in times of the business growth, but the recession is not good for big innovations.HRM Initiatives, On the other hand, the top management understands the effort to innovate the HRM Processes better. The top management is in the search for the impending cost savings and they count every single penny brought by the line management. The HRM Costs are usually a very significant cost to the organization and the HRM Function has to be practical. The HRM Function has to focus on unpopular innovations during the recession as the role of Human Resources during the recession is to save money to the organization. The top management expects all the support functions to bring innovative solutions, which will have to make the organization stronger, when the next growth era comes.

The HRM Innovation during the recession has to focus on the following topics:
1. To optimize the manpower strength
2. Reduce the number of employees in the organization
3. To take strategic initiatives to increase the productivity and efficiency of the entire organization.
4. To work on compensation benefits
5. Cancellation of several benefit schemes
6. Redesign training and development programs
7. To identify the real key employees and to intact them in the organization
8. To identify the real top potentials and to strengthen their development program

On the other hand the HRM Function has to find innovative solutions for the following topics:
1. Identifying the real key employees and to keep them in the organization.
2. Identifying the real top potentials and to reinforce their growth program.

Key employee helps in minimizing additional costs and it is a really hard task to accomplish. The HRM Function has to have priorities in mind and the strategic impact of the HRM Innovations in the recession time. The role of the HRM Function is not to cut the costs for the time being, but to make the organization stronger and ready for the future growth.

Impact of Recession on Compensation strategy
The compensation strategy is a general document about the vision, mission and strategy of compensation and benefits of the organization. Generally, the recession has no impact on the compensation strategy, but the organization has to make some adjustments. The compensation strategy is always connected with the business strategy and the stage of the organizational development. The fast growing organization needs a different compensation strategy from the mature organization. The compensation strategy defines the universal position of the organization on the pay market and the compensation strategy defines the proportion of the overall company costs allocated to the human capital of the organization. The recession makes a massive pressure on the overall costs of the organization and the compensation strategy can easily change the position of the organization on the pay market. The HRM Function has to monitor closely the development on the market and it has to watch for the signals in the change of the overall business strategy as the compensation strategy has to be adjusted as soon as possible. The compensation strategy is quite costly document for many organizations and the HRM Function has to react proactively too many external changes. It cannot be fixed in any organization and also change as per the need of organization.

Role of Human Resource in Recession
The most recent survey, which was conducted among 150 employers in early February 2010, found that other popular cost-cutting measures included:
• Downgrading/canceling holiday party (38 percent)
• Increasing benefits communication (35 percent)
• Eliminating/reducing seasonal workers (25 percent)
• Organization-wide restructuring (23 percent)
• Raising employee contribution to healthcare premiums (22 percent)
• Increasing pay communication (16 percent)
• Restructuring HR function (17 percent)
• Implementing a salary freeze (18 percent)
• Having a mandatory holiday shutdown (10 percent)
• Increasing other employee programs (15 percent)
The percentage of employers that have already implemented salary freezes jumped from 4 percent in December to 18 percent in February. Sixty-one percent of employers reported that they reduced their planned merit increase for next year from 3.8 percent to 2.5 percent.

The Impact of the Economic Recession on HR

The survey reveals that HR is greatly affected by the existing economic situation. Three in five respondents feel the current capital markets directly impact their organization, with three quarters also feeling they have a direct impact on HR. Similarly, the vast majority of organizations (95%) are freezing, or decreasing, their annual HR budget, in areas such as training and development, external training, the use of external consultants, recruitment and HR systems. Evidence suggests this is likely to be the case regardless of what the predicted financial performance is for their organization. Against this backdrop of economic uncertainty and budget cuts, and despite having a slightly biased sample, it is reassuring that the HR function is seen as having a crucial role to play in improving organizational performance, with 88% believing that senior management in other functions feel that HR has some, or a big, influence on performance. There is no direct link between this and the annual HR budget available. The economic situation has led to 82% of respondents making changes to their HR strategies. Of these, three in five (58%) expect such changes to be long term rather than short term. Where respondents feel that their organization’s financial performance will get worse over the next six months, there is a bias towards short-term HR measures being implemented. However there is no clear pattern when comparing HR strategy to financial performance over the next 12 months.

Further feedback indicates that many organizations appear to be carrying out efficiency reviews on their work practices. As a result, performance management and leadership development are understandable priorities since strong, visible leadership will be critical as companies feel the strain caused by the recession. Moreover, it is argued that, since recession forces organizations to examine performance in sharper detail, under-performance will increasingly be dealt with in a more direct and proactive manner. Respondents were also asked to identify those areas that are their lowest priorities.

The bottom 3 priorities listed are:
- HR outsourcing;
- Flexible working; and
- Diversity

Three in five respondents feel there has been a shift in the balance between operational/tactical and strategic HR work, with the majority (60%) citing a shift towards operational/tactical work, especially those with a short term focused HR strategy. There is a corresponding bias towards a strategic outlook among those making long term changes to their HR strategy. Examples of specific changes being made to HR strategy are as follows:

- Training for all line managers to improve our management skills in order to develop our talent during these challenging times.
- Taking the opportunity to restructure the organization to be more effective in delivering the business strategy, and to utilize all resources including people more efficiently ready for the up-turn.

HR Priorities

With HR strategies clearly changing during these turbulent economic conditions, organizations were asked to identify, from a list of 15 activities, those which they feel are their biggest current priorities. The top three priorities selected are:

- Performance management;
- Leadership and management development; and
- Employee communication and engagement.

Where respondents expect changes to HR strategy to be short term, restructuring is another key issue, whereas talent management is seen as being important for organizations with a longer term HR strategy. Performance management and leadership/management development are seen as important for both short and long term strategies.

The top retention strategies identified by employees are close to mirror images of the departure drivers: lack of career progress, compensation increases, job security, trust in leadership, and new opportunities in the market. The top five retention incentives identified by respondents are: promotion/job advancement (53 percent), additional compensation (39 percent), and additional bonuses/financial incentives (34 percent), support/recognition form supervisors or managers (30 percent) and additional benefits (21 percent).

Companies that adapt their talent and retention strategies to meet the particular expectations and motivations of different employee populations will likely retain their talent while those that don’t could find themselves on the losing end of the competition.

So, what does it take to keep employees committed to their company and satisfied with their career? According to the 35 percent who plan to stay with their current employer, the answer is a strong talent management program with:

- Defined career paths,
- Leadership pipeline,
- Leadership that inspires trust,
- Commitment to retaining top talent and
- Effective communication.
Survey respondents also identified an organization’s commitment to the following attributes as important to their consideration of an employer: sustainability, creating a fun work environment, work-life balance, corporate responsibility and volunteerism and diversity and inclusion. Many employers are predicting shortages of qualified talent in critical business units. Employers driven to differentiate their company in the competition for top talent recognize their talent retention and attraction strategies should engage and meet the specific needs of an unprecedentedly diverse workforce. World-class talent programs that keep top talent committed to their jobs with challenging opportunities, excited about their prospects with defined career paths and confident in their leadership can distinguish their organization as a world-class employer.

Steps taken by organizations during recession

Given these issues, companies should take personnel and talent management actions to make sure a smooth post-recession recovery, including:

• Define critical competencies: Whether the challenge is retaining top performers or hiring for future growth, decide which competencies and skills will drive business success. Then retool roles, skill requirements, rewards, hiring, training and career development practices to support them.

• Identify pivotal employees: Quickly identify high-value contributors, including those who drive the most revenue or play crucial roles in areas such as product development. Because the economic crisis might have unnaturally depressed the financial or operational results of certain high performers, base decisions on future business priorities and critical competencies, not just recent performance. Sales employees, for example, who have generated less income than usual will continue to be highly valued given the central role business development plays in most post-recession recovery plans.

• Show pivotal employees they matter: Top and critical performers want to know they have a future place in the company. While promotions are one way to send this message, they’re not always possible in this economy. Special assignments, attachment to high-visibility projects, skill-building opportunities, and formal or informal recognition can be equally powerful engagement and retention tools. Also, keep top performers informed about evolving business strategies. Too often, top performers join competitors simply because inadequate communication has left them feeling unrewarding, uncertain about their roles or uninformed about changing business needs.

• Update and emphasize the employee value proposition: Review the EVP to ensure it aligns with changing business objectives, meets highly esteemed employees’ needs and accurately reflects the company’s commitment. Many top performers rate their companies poorly on the latter. The number of top performers who believe their employers are living up to their employment deals fell by 30% between 2008 and 2009.

• Adjust compensation: Return merit increases to prerecession levels as soon as possible and differentiate based on performance. Alignment with the market is crucial. While base pay ranks third on the list of reasons top performers join a company, it’s the number one reason they leave.

• Retool selection criteria and procedures: In the post-recession period, every employee counts more than ever. Companies don’t have the luxury of making the wrong hiring decisions, so scrutinize all candidates against the new competencies, and hire only if they fit the profit required for success.

• Review the pros and cons of rehires: The fact that an individual occupied a specific position before the recession doesn’t mean the fit remains right. Weigh the person’s skills against required competencies as well as the skills of other available talent. Firsthand knowledge of performance and work style counts for a lot in the selection process, so if an otherwise strong employee has only a few minor gaps that can be developed; he or she might be a good bet. However, if that person brings only previous understanding and relationships to the table, fill the role with another individual who can begin contributing immediately.

• Plan ahead: Don’t be lulled by an apparent surplus of post-recession talent. While it’s an employers’ market for some positions, demand remains high for critical roles and competencies. Impending baby-boomer retirements and projected shortages in critical technical disciplines will only intensify the competition. To get ahead, align talent and business strategies through formal strategic workforce planning that includes assessments of internal and external talent availability and skills, labor costs, turnover, retirement trends, and the quality and depth of available leadership talent.

• Develop top performers: Reinvest in leadership development to build the skills needed to meet changing demands. Assess current and emerging leaders against new expectations and competencies to determine skill gaps, then revamp mentoring and development programs to focus on critical leadership skills. Emphasize development tools that help top performers test their skills on real-time business problems. As one executive at a North American manufacturer says, “If you have fewer levels, any promotions are huge leaps, making it easier to fail. How can you prepare leaders if they have never had a chance to practice these skills?

• Address employee engagement: Recurrently measure top performers’ engagement to identify and address probable problems. Understanding the key drivers of top performers’ engagement helps you determine where to make people investments.
Recessions and Employees’ career options

- The employees are the most important assets of the organization. In times of the recession, the employees have to be secure about their future and the organization should announce a clear plan to them. The recession brings a panic to the organization. The rumors about the recession and the layoffs spread quickly around the organization and the HRM Function has to monitor the Emotions in the employee population. The rumors are the most important danger for the successful survival of the recession. When the employees start to speak about the recession, their key employees and top talents can leave the organization within several weeks, as they feel no future in the organization. The role of the HRM Function in Recession for the employees is being their real advocate. The HRM Function should prepare the proper communication and it should manage to get the by in from the top management. The employees feel the danger from the recession, the top management has to inform all the employees honestly about the outlook for the organization and it has to provide them with the vision to follow. The organization needs to save the costs and it needs to identify and potential additional source for the cost saving and starting a new growth era. The HRM Function has to prepare a new HRM Vision and a new HR Strategy for the coming period as the cost cutting is not the only way to build a stronger organization fighting with the recession.

HRM Role after Recession

The recession is healthy, from time to time. The recession helps to stop the businesses, which are not bringing value added and the human capital is transferred to more vital businesses at lower costs. In the companies, which survive the recession, the HRM Role is very important. In time of the recession, the HRM Role is to make cost cuts and the HRM Function has to provide the list of the policies and the procedures to be cancelled or discontinued.

- The HRM Function has to be able to identify the top potential in the organization quickly as the company needs to make the cuts in the human capital of the organization.
- The HRM Function needs to provide the tools to managers to inform their key employees about the security, the company wants to offer to key employees.
- The HRM Function is not a department to make employees happy, the role of HRM Function is also about the costs in the cuts of the organization.
- HRM Function’s role is about minimizing the damages to the organization.
- The HRM Management has to define the HRM Vision for the Recession. The employees in Human Resources have to understand the goals for the difficult period of the recession.

“The HRM Function can serve as the navigator and facilitator for employees, but the HRM Vision for the recession has to be defined and clearly communicated and explained to HRM employees. The HRM Management has to communicate the full story as the HRM Employees have usually access to confidential information and they can build a good picture of the organization’s health very quickly.”

FINDINGS:

But the key findings can be summarized as follows:

- HR possesses “An inadequate understanding of the relationship between workforce reductions and business goals”.
- Quantitative performance measurement is seen as a key priority – with over 90% of organizations either having or planning implementation of such systems.
- Boosting productivity without increasing employee costs is another major priority – with a focus on training, more stringent performance appraisal and process innovation.
- One could conclude that the emphasis is upon cost reduction and increasing productivity.
- Understandable in these interesting times, but the question must be: “Are there other elephants in the room?”

CONCLUSION, RECOMMENDATIONS & SUGGESTIONS

I would suggest that there is the psychological trauma induced by a sudden and unexpected recession. Research, conducted with colleagues, indicates that getting to grips with an unseen sea of psychological trauma should be top of the list – from the perspectives of both businesses efficiency and staff well-being. We are, after all, moving towards a world where there is more to strategy making than cost reduction. And getting to that world will take time, new externally based exploratory skills – and of course motivated.

Lessons for the Future Be prepared: Prepare for various scenarios and future market volatility. Having robust, diligent and meaningful management engagement supported by a scenario planning tool that caters not only for revenue decreases, but also includes early warning triggers, KPIs, etc is critical. Such a tool is equally effective to anticipate revenue upside; ensuring growth is translated into margin, with funding requirements clearly identified. Be lean and agile: Focus on improving operational, people and procurement flexibility to deal more effectively with demand variability and cost reduction. Be bold: Most companies initiate cost reduction programs prior to a recession. However, they subsequently realized that those plans were not drastic enough. Keep a constant eye on costs and take timely action. Differentiate: Know your strengths and your customers. Engage with your...
customers ensuring they get the value they are looking for. The research highlights the difficulties facing HR in the current environment. Most corporate HR departments are freezing or decreasing their annual budgets and there is an enhanced need for HR leaders to focus on the urgent business critical initiatives. However the survey also reveals the key role HR has to play in driving organizational performance. Now more than ever before, HR needs to show it to be about more than making redundancies by helping the organization to reduce costs and improve efficiency and performance. Organizations that intelligently manage talent and communicate with employees honestly, accurately and at the right time will ride the current turbulence and be successful in the future.

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