

# Managing People in a Downturn

*In times of trouble, organisations focus on fixing the immediate issues — sometimes at the cost of their employees. It is time to set an HR agenda for SMEs to ride these rough waters, says Rajesh Dhar, National Lead, Hewitt Consulting–Small & Mid-Segment, Hewitt Associates India*

**M**uch has been said and written about the impact of the current global economic crisis on everything, ranging from countries to companies to individuals. A lot has changed, and very fast, in practically every corner of the world.

During our discussions with small and mid-sized companies in recent times, the subjects have varied from organisation structuring, to role definition, issues relating to performance, rewards strategy in challenging times, manpower planning and retrials. However, most interactions in the last few months culminate with — what can small and medium enterprises (SMEs) do to tackle the slowdown?

**SMEs need to develop a framework to effectively utilise their employees in the downturn**



This question has many dimensions to it — access to funding, slowdown in sales, under-utilisation of capacity, cost overruns, and many more. What is most disconcerting is that in all this immediate crisis management, organisations are very susceptible to ignoring their employees and their individual or collective concerns.

These reactions of most small- and mid-sized companies are based on how far they can see into the future, which is not very far, given the global economic developments, and most of what they see is not looking very good.

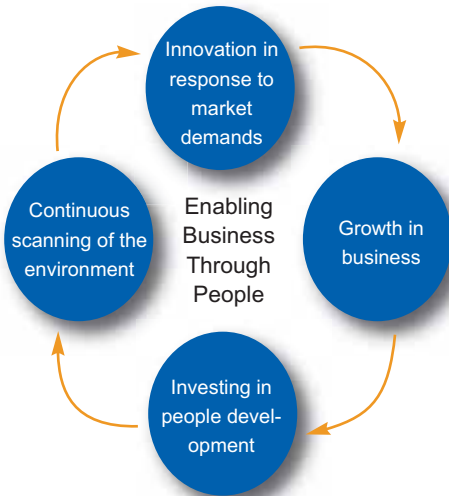
Now, more than ever, any decision that is taken needs to be viewed in the context of the longer term. Things are completely different and whatever worked smoothly a few months ago is irrelevant now. So fixing the immediate future should be the only focus, right?

Well, not really. Let us take a look at what was true before the crisis and what has changed since then.

## **Riding the gravy train**

Not so long ago, there was a gung-ho spirit in the economy. The most visible manifestation of this was in the small- and mid-sized companies that were finally having their day in the sun. Almost all the organisations had ambitious growth plans, were able to access funds and credit, as well as markets all across the world.

When all is going well and the economy is in growth mode, organisations experience



a self-sustaining cycle as shown above.

As long as this cycle is in motion, all is well — market demand is rising, industry output is increasing, companies are making money and employees earn more and experience professional growth. But when the wheels decelerate, the scenario and the response to the change can vary for each company.

Let us take the case of a small-sized organisation from the manufacturing industry. About a year ago, the situation was as follows:

- Compounded annual growth rate (CAGR) was over 50 per cent for last three years, and projected at over 40 per cent for the next three years
- Capacity expansion under progress, funding finalised for the expansion
- Management realised they had almost everything they needed to exploit growth opportunities
- However, lack of managerial capability was the sole potential risk

The organisation realised that improving managerial capability required sprucing up the

human resources function, an area that had been neglected in the organisation. So it undertook the following initiatives:

- Setting up a dedicated HR team and HR systems to ensure that there would be right talent at the right place in a timely manner, to drive aggressive growth plans
- A sizeable training and development (T&D) budget was allocated. Employees were also glad with this new focus on developing people's capabilities in the organisation
- Experienced professionals were hired to grow existing businesses and develop new business ventures

All this also led to some radical changes:

- Talent management—focusing on job-person fit rather than job-organisation fit and ensuring parity and integration between the old and new employees
- Leadership—moving from a hands-on, ownership-driven approach to a system-driven management approach with an empowered group of professionals
- Performance management—bringing about more performance-orientation in rewards as against loyalty, which was often a compensation for mediocrity

However, by and large, the gap between capability requirements and available talent was beginning to narrow substantially.

## Getting derailed!

But when a significant event (or series of events) impacts the business environment, this self-sustaining cycle is broken. This is what we are experiencing at present.

Let us re-visit the organisation we had seen a year ago.

- Achieving this year's targets seems impossible. Growth projections for the next few years need to be revised, but the management is not

sure of what the new targets should be

- Some of the funding for capacity expansion is delayed, leading to a delay in capacity expansion. Interest payments loom large. Moreover, even the existing capacity is not being fully utilised

So how is this affecting the employees of this organisation?

- Management is considering laying off some of the new hires for the expansion project
- New business ventures are being revisited or deferred — more layoffs
- Various cost-cutting initiatives have been introduced across the organisation
- Most of the HR budget, including T&D, has been reduced drastically
- Compensation correction is being looked at across the board
- Employees are unclear about their own future as well as that of the organisation
- Employee productivity is suffering while ever more work is being piled on to inadequately staffed and qualified employees

As is evident, the focus is on running the cycle despite the broken links. On the contrary, the focus should be on fixing the broken link(s) and getting the self-sustaining cycle to run again.

This is, of course, easier said than done. It is akin to changing a flat tyre while the vehicle is still moving. And evidently, this is isolating employees from the organisational agenda. It is important to ensure that at this time, above all, the employees are with us. How we treat them now has long-term implications.

## Back on track

Though no one denies the importance of people in the long term, the question that really needs to be answered is — what can



**If a company does not focus on fixing broken links, achieving objectives will be difficult**

we do today to get the best out of our employees?

Ensuring the support of the employees is critical for the success of any plans that this organisation has for turning itself around. So let us look at a few things that this organisation can do today:

**Communicate business decisions** As the employees are aware of what is happening in the environment, they will arrive at their own conclusions if the management does not update them. An SME has the advantage that this process can have a more personal touch in it than in large companies. Indeed, this is an expectation in the smaller companies. Ironically, it is seen to be most difficult in these very companies as the owners may feel that they 'do not need' to explain their actions to their employees.

The management should communicate all crucial decisions with the employees through open houses and other forums — including shutting down of divisions, deferring of plans, layoffs that have been made and even salary revisions.

Communication is even more important now than before.

**Clarify the expectations of the organisation from its employees** The management should specify to the employees upfront that the entire organisation would need to stretch and work harder to stay afloat. The employees would appreciate this frankness, rather than witnessing sporadic incidents of extra work



**SMEs need to actively involve employees in the decision-making process and keep communication lines open**

being demanded by superiors without prior intimation. So a smooth transition can be made from a five-day work week to a six-day work week. This should, of course, be led by example from the top.

**Re-skilling/realignment/retrenchment of resources** Some of the existing and newly hired resources of this organisation would need to be realigned to roles where support is needed. This may even entail developing new skills. However, the organisation should ensure this is a shared decision and is perceived to be undertaken without 'arm-twisting'. Moreover, the organisation should support this effort and communicate its appreciation of an employee's willingness to realign his or her responsibilities. Where none of the above is feasible or mutually acceptable, retrenchment can be looked at as an option.

**Bring focus to development initiatives** Across the board slashing of T&D budgets indicates a panic and knee-jerk reaction, giving the message that development of resources is a dispensable expense and a luxury. On the contrary, focus areas for T&D need to be identified and budgets, however small, should be allocated for them. This reassures high performing employees that their development is still on the organisational agenda.

**Involve employees in the business im-**

**provement efforts** Employees should be asked for suggestions and should be incentivised, even more than before, to put forward suggestions for cost saving and cash flow improvement. Remember, organisations have reduced hiring, but not completely stopped it. And with limited resources, they would target your best performers. The organisation can now look forward to the complete support and involvement of its employees in implementing its plans to sustain it through the tough times.

### Get ready for the ride

The coming months are going to be tough for management and employees alike in the SME sector — there is no doubt about it. But the Indian economy has only begun its growth path. The acceleration will slow down, but growth is still inevitable for Indian companies.

We need to brace ourselves for challenging times in 2009, with credit crunch, lower sales volumes, and reduced demand. SMEs will be focused on managing a healthy profit margin at all costs. But the one core tool that should be optimally leveraged is our human resources. Plans for improving performance, re-skilling, adapting to the market changes and optimising costs in this area should be important agenda items for quarterly review meetings of the management.

We need to ensure that we sustain a healthy employer-employee relationship, especially in these times, because a downturn or an economic slowdown will come and subsequently fade away. But the business and employer bond of an organisation needs to be developed for the long term.

How this ride ends for us — and who continues to work with us — depends a lot on what we do today.