



## Managing Human Resources in a Global Downturn



### Talking Points

The sharp rise in worldwide unemployment rates resulting from the economic downturn has diminished the urgency of the global war for talent, as corporate managers undertake mass layoffs and workers focus on job security. But the long-term structural factors driving the competition for human capital remain unabated amid the recession: Globalisation, demographic shifts, technological advances, shortages of skilled professionals, entry of “Generation Y” persons into the work force.

Companies that succumb to short-term disruptions will be poorly equipped to cope with these structural changes in the global labour market, while enterprises that strengthen their human resource capabilities during the downturn will be well positioned when the world economy recovers.

The human resource profession is undergoing a transition from the tradition model of HR management (which focuses on administrative processes) to a “New HR” paradigm that emphasises the strategic dimensions of human capital management. The new model of human resource management demands HR professionals who possess an understanding of the role of human capital in corporate strategy, a capacity to navigate a complex and diverse global labour market, and an ability to engage young employees who bring different values and expectations than their predecessors.

Effective human resource management also requires the active participation of senior corporate executives who can identify rising stars in the organization, mentor aspiring leaders, and transcend organizational turf battles that encourage divisional hoarding of talent. The global recession presents an opportunity for strong companies to strengthen their human resource capabilities, including hiring of talented individuals caught in corporate downsizing.

Even robust companies cannot avoid layoffs in the current recession. But skillful management of the downsizing process (e.g., generous severance packages for departing workers) strengthens the company’s image and thus bolsters its capacity to attract talent employees when the economy rebounds.

The “global war for talent”, which became the byword of human resource management in the 2000s, appears less urgent as unemployment surges in the wake of the world recession.



Jobless rates in the Euro zone and the United States surpassed 7.0 percent by the end of 2008, and will approach double digits in 2009 as companies slash their payrolls. Unemployment rates in the BRIC countries and other emerging markets are also rising, creating worker surpluses in what were recently tight labor markets. China, whose manufacturing sector suffered labor shortages earlier in the decade, now exhibits mounting unemployment that threatens the country's socioeconomic stability. Chinese export manufacturers are releasing large numbers of migrant workers, precipitating a reserve migration from once-booming southern coastal regions to underdeveloped interior provinces.

The weakening of the global labor market affects a broad spectrum of industries and occupations. Workers in financial services, manufacturing, and retailing face massive job cuts. Managers and engineers previously ensconced in comfortable positions at high-growth companies also confront growing uncertainty as the downturn spreads to once-robust sectors of the global economy. Even rising stars at technology companies accustomed to poaching by rival firms are now hedging their bets and focusing on immediate job security.

Under these circumstances, corporate managers have a strong temptation to divert attention from the global war for talent (driven by competition for skilled employees amid labor scarcity) to downsizing of the workforce (impelled by falling output and declining revenues). Human resource management becomes a target of discretionary spending cuts as companies struggle to boost flagging earnings.

HR managers face a weaker imperative to retain talented employees, whose bargaining power and job mobility have diminished in the slack labor market.

## Trends in the Global Labor Market

However, companies that yield to short-term disturbances in the global labor market place themselves at risk of losing their long-term competitiveness. The structural factors underpinning the war for talent remain intact despite the economic downturn:

Globalization heightens the importance of human capital as a competitive asset, particularly for companies based in high-income economies that rely on productivity gains to neutralize the labor cost advantages of emerging market competitors.

Demographic patterns clearly point to future labor shortages in North America, Europe, and developed Asia, where fertility rates are low and aging workers are approaching retirement. The increasing technological content of global services and manufacturing raises the premium on highly talented employees, who enjoy high international mobility and multiple professional options.

Deficiencies in production of university-trained scientists and engineers in Western countries widen gaps between workforce capabilities and enterprise requirements, compelling many American and European companies to tap the labor-rich emerging markets for skilled workers.

The entry of growing numbers of Generation Y members ("Millennials") into the global labour market in coming years raises new challenges for corporate managers, who must compete globally for talented young professionals bringing different values and expectations into the workforce.

Nothing in the current economic downturn indicates a diminution of these long-term drivers of the global labor market. Accordingly, companies that sustain investments in human capital during the recession will enjoy a strong competitive advantage over companies that neglect HR management.



## Human Resource Management as Strategy

The traditional model of human resource management focuses on administrative functions: Application processing, benefits, compensation benchmarking, dispute resolution, employee grievances, performance review, rules compliance. HR professionals typically spend the bulk of their time absorbed in these day-to-day tasks, disengaged from the organisation's broader objectives. The human resource curricula of business schools reinforce this tendency, producing HR professionals well trained in administrative processes but lacking a firm grasp of the links between human capital and corporate strategy.

The HR profession is undergoing a migration from this tactical model to one that treats human resource management as a core strategic activity. Graduates of elite MBA programs who previously shunned unglamorous HR jobs to take positions in corporate finance or management consulting are now pursuing human resource careers.



### Several factors are driving the rise of the “New HR”:

Growing recognition by senior executives of the centrality of human capital in corporate strategy, especially managers of companies situated in global industries where strong HR management is a competitive differentiator

Increasing complexity of global human resource management, which demands HR professionals able to recruit employees with varied backgrounds and to navigate diverse geographies and cultures

Exhaustion of productivity gains from investments in new plant and equipment, which heighten the importance of high-quality workers as drivers of productivity growth Expanding opportunities for outsourcing of HR functions (e.g., benefits administration) that free up corporate resources to engage the strategic dimensions of human resource management

Changing attitudes toward work by Generation Y individuals, whose recruitment and retention require an integrated approach to professional development and careful attention to the entire employee “life cycle”

These factors heighten demand for HR professionals possessing a strong strategic acumen, a global perspective, an embrace of workforce diversity as a competitive asset, and a capacity to identify and develop rising stars in the organisation. They highlight the need to align HR practices with labor force dynamics: e.g., forecasting future workforce requirements; assessing leadership pipeline trends; devising performance metrics that address both the “hard” and “soft” skills of employees. And they underscore the imperative of continuous and visible engagement in HR management by senior organizational leaders:

Articulating the links between human capital development and corporate strategy; mentoring and coaching young employees with leadership potential; surmounting organizational silos to expand lateral opportunities and optimize deployment of the company's human assets.

## HR Management in a Global Recession

Investments in human capital are not likely to be a high priority for companies whose very survival is threatened by the global downturn. But for companies with strong balance sheets and compelling business models, the economic downturn presents important opportunities to strengthen their HR management capabilities and position themselves for the inevitable rebound:

Utilizing slack time to engage employees in professional development and technical training programmes, which serves both to sharpen skills and to preserve morale during tough times

Opportunistic hiring of talented individuals caught in downsizing at weaker enterprises, which augments the company's human capital base for long-term growth

Promoting cross-divisional and cross-functional collaboration, which improves utilization of human resources and encourages teamwork between employees who previously had little or no contact

Redefining and expanding spheres of authority and responsibility of star employees, which permits assessment of the leadership potential of individuals who may eventually occupy executive positions in the organization



Notwithstanding the proactive HR options available during recessions, few companies are escaping the fallout of what now rates as the worst global economic crisis since the Great Depression. As a result, even robust enterprises are downsizing their work forces.

While termination of employees is an avoidably painful process, how companies manage downsizing is an important component of human resource management. Generous treatment of departing workers - including high-quality placement services and severance packages - not only creates goodwill among former employees who will speak favorably about the company and who may indeed return as "boomerangs". It also burnishes the company's image as an attractive workplace ("employer brand") and thereby strengthens its capacity to recruit and retain talented persons when the economy recovers.