Chapter 3: GLOBAL POLITICAL ECONOMY AND HRM WITHIN GLOBAL TURBULENCE

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Overview of Chapter

This chapter explores how the global economic crisis has impacted upon work and the HR function since 2008. How different kinds of businesses and governments respond to global turbulence in terms of their human resource planning, strategies and decisions is considered, and how managers, organisations and workers have reacted to such conditions are evaluated. Heterodox alternatives are posed which are often overlooked in traditional HR thinking and the effect of the crisis upon organisations and thus the strategic importance of HRM among them is also examined.

Learning Objectives

After completing this chapter, you should be able to:

- Understand some of the causes of the 2008 global economic crisis, its impact on labour markets and its legacies for the HR function today
- Compare and contrast the HR policy responses to global turbulence within various typologies of capitalist societies and also by different kinds of business organisation
- Critically evaluate how episodes of global turbulence impact upon the HR function, exploring a range of scenarios and debates
- Critically evaluate whether organisations can remain competitive in the face of tempestuous external environments, and if this necessarily implies reducing labour costs
- Explore a range of alternative HR responses by the state, workers and other actors

HRM in the Media

"How could we cope if capitalism failed? Ask 26 Greek factory workers"

It is reported in the Guardian (18 July 2017) that staff at the Viome factory in Thessaloniki, Greece arrived for work in 2011, to be faced with instant redundancy. The company's owners had gone bust and abandoned the factory. Given that 2011 was the height of EU's worst economic crisis, the chances of workers finding alternative employment was low. So rather than accept their fate, the workers occupied the factory with a view to running it themselves. But they planned to run it differently along the lines of a workers cooperative. So there would no longer be traditional hierarchy, no single boss and everyone would be on the same wage.

Questions:

1. Companies go bankrupt in normal times without this kind of response from workers. Why do you think workers reacted differently in this situation?
2. What would a conventional HR 'rescue package' for a failing company consist of?
3. How do you think the HR function would operate under the new cooperative business structure?
4. What role could trade unions play in an arrangement like this?

Introduction

The global financial crisis (GFC) which began in 2008 has had profound and long lasting effects on the way organisations are managed. The IMF declared it to be “the worst crisis since the Great Depression” and the widespread disintegration of confidence in the financial system caused many to question whether the neoliberal model of capitalism itself had been exhausted as the dominant economic paradigm (McDonnell and Burgess, 2013). The figures are revealing. In the US close to eight million jobs were lost, poverty reached 50 million and median incomes fell by US$2,000. In the EU unemployment rose by 50 percent to 23 million, whilst the impact of fiscal austerity has slashed public sector spending, leading to severe deteriorations in living standards for broad sectors of society. In the UK, the TUC (2016) found that real terms earnings fell by 10% between 2007 and 2016, placing UK workers at the bottom of the wage growth league alongside Greece. Meanwhile the Institute of Fiscal Studies (2016) demonstrated that poverty had extended to significant sectors of those who had been in middle income groups.

As HR students, researchers or practitioners we are aware how the PESTLE factors in the external environment influence business strategy and that these in turn affect resourcing planning decisions. Therefore, how the GFC represents an external shock for HRM and how it has reconfigured the parameters of the way in which HR professionals operate at different levels must be analysed. Drawing upon evidence from a range of country experiences, these consequences are examined in this chapter in terms of what its affect has been on corporate governance, strategic HRM, employee participation, employment relations and both management and worker responses. Does the nature and extent of the GFC affect how the principal elements of HRM are operationalised? For instance can we assume that staffing levels were or should have been rationalised, remuneration and benefits reduced and employment relations strained, or did businesses deploy more nuanced responses? Thirdly we can ask how, has the turbulence following the GFC altered HRM strategies and the importance of the HR function?

The links between global turbulence following the GFC, business decisions and HRM are explored because, on the one hand, turbulence affects how people are managed and on the other because HRM as a profession and an academic area play a key role in alleviating the impact of crisis upon businesses themselves (Zagelmeyer and Gollan, 2012).

The Global Financial Crisis

In order to understand the character of the global crisis which has led to significant transformations on the HR field, one needs to analyse it in three stages. Initially, during 2007 and 2008 its nature was financial. The so –called “sub-prime mortgage crisis” was caused by lending in the US housing market based upon false assumptions about property valuations and the loan defaults. The bad depts were made toxic by being bundled within broader financial packages thus contaminating “good” debt with bad and undermining confidence in the entire financial system (Colander et al, 2014). It is arguable that this was not just a series of mistakes but was systemic in the financial system as a whole. The knock-on effect of the subprime mortgage crisis infected increasing numbers of financial institutions. Faced with the large-scale consequences of economic collapse, regulators and government did not have a clear consistent approach. In the US, state intervention was seen as anathema and large established names such as Lehman Brothers were allowed to fail. As the contagion spread this approach was not sustainable for risk of the entire financial system and the wider economy. State bail-outs followed. In the US the long established 'Fanny Mae' and 'Freddy Mac' mortgage lenders were brought under federal government control while in the UK some of the largest and oldest banks – Barclays, Lloyds, Royal Bank of Scotland were nationalised or part-nationalised. According to the National Audit Office (2016), total government support to UK banks was £1.162 trillion. This effectively averted the immediate collapse of the system but had serious longer-run implications in terms of national indebtedness. This whole sequence of how events quickly unravelled was, shrewdly portrayed in the 2015 film, 'The Big Short. They had long-lasting effects.

The first effect of this was the supply of credit to businesses and banks dried up in the "credit crunch" of late-2008. This nervousness also infected consumer demand and affected the real economy. Production was cut, jobs were shed and the global economy stood on the brink of implosion.

A second stage, the "economic" crisis then followed as these problems extended beyond the monetary economy into the real economy, sparking a global recession with profound knock-on effects for international supply chains and labour markets. Following the bailouts, national governments took further steps to minimise the social impact of the crisis by introducing stabilisation packages. Some governments chose to try to stimulate consumption and labour demand, while others preferred to regulate against redundancies or pursue labour supply-side measures such as increased "flexibility" and training (Burley et al, 2009). As part of these stabilisation and adjustment policies (in particular the bailout of the finance sector), many countries acquired huge public debt. Some states like Greece were even forced to part default on their debt, thus ushering in a new era of "austerity" across Europe, during which significant cuts were made to public spending, infrastructure projects, welfare, social protections and public sector salaries.

In the UK, alongside austerity a policy of "Quantitative Easing" was also pursued – effectively the central bank creating money for financial institutions to lend more to businesses and individuals, in order to stimulate the wider economy. The Bank of England (2012) concluded that whilst the policy had been successful in helping to end the immediate liquidity crisis, it had acutely regressive wealth redistributive affects, enriching the top 5 percent of the population through the asset-price inflation it provoked.

The third stage of the crisis heralded a transformation of the "economic" crisis into a "public finance" crisis. This was most serious among those EU countries inside the single currency where interdependency between banks, financial systems and public finance institutions threatened to spark a contagion effect of mass defaults starting in Greece and extending across the Eurozone. Following intervention from the "troika" of the European Central Bank, European Commission and IMF, the kind of conditionality that entailed new loans in return for structural adjustment and marketisation policies similar to that imposed on the poorest countries in the world in Africa and Latin America during the 1990s, were now being forced upon several countries in Western Europe. This placed the entire European integration project at risk and contributed not only to the election of anti-austerity parties such as Syriza in Greece or to the sudden rise of others like Podemos in Spain, but also to a growing anti-EU sentiment, culminating in the British population voting to leave the European Union in June 2016.

The spectre of crisis thus continues to haunt the world today, mutating in form and perhaps most recently morphing into a potential political and social crisis (Zagelmeyer and Gollan, 2012). With the contradictions between how the "popular will" is being delivered under representative democracies and governments simultaneously capitulating to social and economic agendas which appear to put the wellbeing of large corporations and wealthy elites before those of their citizens increasingly exposed, social unrest, popular protest and the growth of parties with programmes that are deeply critical of neoliberal capitalism can be witnessed across the global north.

Overall, the national debt burden has since surpassed sustainable levels in many countries and many experts predict another global crash because the lessons of needing to regulate unfettered speculation and runaway indebtedness have not been learned (Turner Review, 2009; FCIC, 2011). However, amidst all the speculation, the only certainty is uncertainty. It is crucial that HR professionals understand both how global turbulence occurs, what its effects on organisations are, their strategy to deal with it and so what the role of the HR function is. The remainder of this chapter will focus on the latter of these questions.

Global Turbulence and HRM

Neoclassical economic theory suggests that economic downturns inevitably provoke significant declines in consumer demand. These are then responded to by contractions in the demand for labour. Firms then face pressure to reduce their own costs, including their labour costs. Concurrently, as the need for labour falls, unemployment rises and pay and benefits also face downward pressure in order for firms to maintain market competitiveness. Falling wages mean a further fall in consumer demand. So how to break out of this cycle? Evidence from the Asian Financial Crisis in 1997 points to specific impacts on organisations' resourcing decisions, which included recruitment freezes or redundancies, greater use of casualised labour, pay freezes or cuts, more targeted training programmes, modified performance management systems and the undermining of trade unions and industrial relations.

In contrast, Keynesian economists argue that waiting for demand to pick-up through when a new equilibrium returns is not sustainable: "in the long run we are all dead" (1923: 80). If Keynes' point was for government intervention to stimulate demand, may a similar issue of 'lost capacity' be relevant at the level of the firm? Whilst the above trends may be common, they are not universal. In reality the external impact of economic crises upon individual firm behaviour is mediated by factors such as the sector that they operate in, their size, level of control over their specific market, strength of the local trade union (in terms of its density, militancy and existence of recognition agreements) and a range of other factors. For instance in their study of multinational company (MNC) responses to the 2008 crisis in Ireland, Gunningle, Lavelle and Monaghan (2013) found that employment levels held up comparatively well among this kind of organisation compared to the broader economy (they fell relatively more slowly) because they tended to be export-led and export demand even increased during the crisis because of the fall in the value of the Euro which made it cheaper for consumers and businesses outside the Eurozone to purchase their goods or services. In 2010, Irish exports grew by 7 percent and 30 percent of businesses actually expanded their operations (European Restructuring Monitor, 2010). Those companies that bucked the trend of recession were even able to expand their workforces.

These authors also found that many MNCs were had sufficient financial cushions to be able maintain staff during the tough times, with a view to better times ahead, even if they had to resort to reducing hours, granting temporary leave or short-term working. This policy of course bestowed many benefits, including saving workforce morale from being damaged and also saving on the associated redundancy, re-hiring and training costs of recruiting a new set of workers once the market improved. Further, expertise and experience could be kept within the organisation. Many such firms realised that cost minimisation could be damaging in the long term, so needed to be combined with strategies to increase innovation and also those that preserve the product and service quality. In fact perhaps the main impact that the global crisis appears to have had on MNCs is to have accelerated the pace of restructuring. Rather than offshoring or closing down plants or offices to locations where production is cheaper, in fact many such organisations were more likely to respond with intra-company restructuring, concurrently making job cuts and also hiring workers in what is known as “job churn.”

Another large-scale survey of the impact of the crisis on resourcing decisions, this time of Australian MNCs (Boyle and McDonnell, 2013) confirmed site closures, offshoring and outsourcing to be fairly uncommon and only took place in 20 percent of companies, whereas reduced international travel (70 percent), lower recruitment (60 percent) and reduced spending on training and development (51 percent) were far more common responses. Indeed in terms of the latter, one finds that the impact of the crisis upon how firms made decisions about training budgets was segmented. In general training tends to be one of the first casualties of organisational cost-cutting in response to external shocks. However, whilst “basic training” (inductions, health and safety etc.) was reduced for employees lower down the hierarchy, investment was often maintained in this area on a more targeted basis, with budgets reallocated towards leadership training for managers, perhaps unsurprisingly for courses on how to coordinate organisational change (Gunnigle, Lavalle and Monaghan, 2013:221). So what we learn from these experiences are that businesses’ HR responses to turbulence were nuanced and did not follow a one-size-fits-all approach. This reflects the ‘HR architecture’ perspective (Lepak and Snell, 1999) which explains how differentiated HR strategies are often applied to different employee categories.

Indeed, even in cases where the MNCs in question had no choice but to reduce costs, the trade unions were often able to negotiate favourable outcomes for their members. Where they agreed multidimensional restructuring programmes, these shielded them from compulsory redundancies or significant pay cuts. At Air Lingus they designed a “leave and return” plan to save jobs, whereby employees were able to take a lump sum severance payment to walk away from the company but later re-join on lower pay or less favourable conditions. At AXA early retirement, voluntary redundancy, a redesigned profit-sharing scheme and new pay scales were introduced. In other companies such as Pfizer, the unions held weaker leverage and the plant closed, or where the company had no union presence (Dell), workers were subject to 3,000 job losses, offshoring and internal restructuring.

Shedding workers should always be a last resort. Not only do large firms with Corporate Social Responsibility policies have an ethical obligation to avoid the impact of redundancy upon workers, but also a need to avoid reputational damage to their brand. The Irish companies mentioned above and their unions conjured up imaginative ways to preserve jobs. Sometimes the latter negotiate wage freezes (or even reductions) in return for a guarantee of no compulsory redundancies. In Russia, many companies enacted alternative labour-cost saving by reducing the working day, sending employees on leave without pay (returning to their employment when profits were restored) or with reduced benefits and perks to save costs such as use of company phones or cars (Buley et al. 2016: 161).

So the operational challenges for HR that result from the impact of crisis upon firms are numerous and expansive. The initial decline in consumer demand and then the associated shrinking of demand for labour is just the start. The adjustment policies that HR in the private sector are often required to implement may also be compounded by austerity programmes in the public sector (Zagelmeyer and Gollan, 2012: 3290). It has been argued that the financial pressures brought to bear on firms to reduce labour costs during periods of crisis are counterbalanced and recuperated by increases in productivity by when workers fear losing their jobs as the labour surplus in the economy increases. Whilst mistakenly framing this among the "motivation" literature, what is true is that job tenure tends to rise during periods of global turbulence as workers tend to be less likely to voluntarily leave their jobs. Average tenure also increases because of the shift towards "core business" for many firms and towards long-tenure jobs on company payrolls (EuroFound, 2015). Figure 3.1 illustrates how tenure increased in the UK during 2008-2015, when the economy was either in recession or barely growing.

Figure 3.1 - Mean Tenure of Employment UK (2006-2015)

Source: Data from the Labour Force Survey

Other research suggests that since 2008, employees have gifted more unpaid overtime than ever to their employers, contributing 2.1 billion hours or equivalent of £33.6 billion of unpaid labour (TUC, 2017). Further arguments to counter-pose this "motivation-by-coercion" thesis are that some employees of organisations that enact cost-cutting measures cease to believe in the future of their companies, they start to manifest indifferent attitudes to their work, by reducing their commitment and productivity and so contribute to a further loss of competitiveness for the firm. Indeed if these tendencies spread through the firm, it is often the most qualified among the workforce that then seek to leave, which further aggravates crisis situations for such organisations (Buley et al, 2016). Thus the hidden costs of enacting redundancies or other cost-cutting measures should also be borne in mind by HR professionals before choosing to pursue such a path.

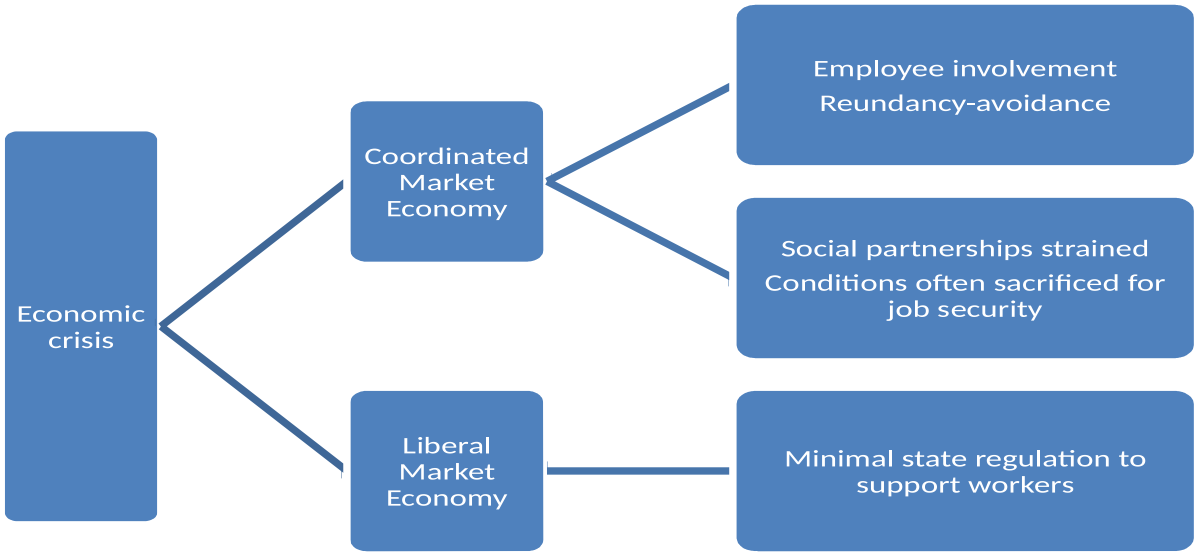
Another factor that mediates the impact of external shocks like global turbulence upon workers and firms comes from the 'varieties of capitalism' literature (see Figure 3.2). This refers both to the culture of management-employee relations at the organisational level as well as the national industrial relations tradition within which the firm operates (Marchington and Kynighou, 2012). Essentially in Liberal Market Economies (LMEs) like the UK or the USA, the regulatory impact by the state and institutions tends to be minimal, granting employers the space to either include their employees (or not) in decisions that affect their own jobs and the direction of the organisations they work for.

Meanwhile in Coordinated Market Economies (CMEs) such as Germany, Japan or Sweden, employers tend to continue to involve their staff in terms of how the company copes with the crisis. Due to the institutional structures in place in which tend to be relatively stronger in CMEs, although are far from absent in the LMEs like legal restrictions, works councils, trade unions and collective agreements they have often mitigated against the excess negative employment outcomes in such economies. For instance using panel data to measure the effect of employment and competitiveness pacts between 2001 and 2010, it was found that in Germany, company-specific concessions were often made to avoid redundancies during the crisis (Bellman and Gerner, 2012). Zagelmeyer (2010) found that while the social partnership model came under strain in Germany due to the financial pressures faced by firms, it was the nature of the institutionalised collective agreements that on the one hand supported workforce retention and on the other supported the process of dialogue and consultation on change management that helped to mitigate against loss of trust and commitment by those employees who remained in the company after the redundancies that did happen were made.

However such arrangements were also a double-edged sword for workers. Whilst jobs were retained to a greater extent than in non-CME contexts, the trade-off was often with employment conditions (holiday pay, increments, bonuses), which works councils and labour representatives sometimes sacrificed at the altar of job security.

Meanwhile in Ireland which is sometimes categorised as being situated somewhere in between LMEs and CMEs, whilst centralised (national) bargaining between employer associations and trade unions over industry pay and conditions has been growing in the last twenty years via "social partnership agreements" (most recently the Toward 2016, it was noted that many employers actually infringed such agreements by implementing pay cuts since the beginning of Ireland's crisis (Gunnigle, Lavelle and Moneghan, 2013:221).

Figure 3.2 - Varieties of Capitalism as a mediating factor of economic crises on resourcing decisions



Nevertheless, regardless of these differentiated varieties of capitalism and where national systems are positioned on the state-market nexus, there was consensus with regards to the need to extensively and directly intervene to prop up, or indeed save the financial system. Ironically it was the most laissez-faire economies such as the UK and US where the state acquired ownership of large parts of the banking sector.

A whole range of additional variables further contributed to the highly differentiated and context-sensitive nature of how post-crisis adjustment policies influenced workers and HR decisions within firms. For example, external incentives provided by public policy differed depending on the sector. Also, vastly differentiated labour turnover costs exist, for instance between public and private sector organisations (these tend to be greater in the former where redundancy payments are higher and recognition agreements with unions tended to be stronger). Talent shortages in particular labour markets mean that those organisations in such industries (for instance engineering, information technology, scientists and certain medical professions in the UK) were more hesitant to implement downsizing, as were firms that had already invested heavily in the human capital of their workers (through training and development programmes). Certain industries such as pharmaceuticals and healthcare also tend to be more "recession proof" in terms of the demand for their services. People need medicines and treatment for illnesses just as much, if not more during times of economic downturn. Other factors include the degree of market share that a company enjoys. Monopolistic firms tend to be better shielded from the negative recessionary impacts on their workers because they remain price-setters. Oligarchic firms also enjoy sufficiently abnormal profits to sustain falls in demand without mass redundancies or cutting wages, at least in the short-term.

Indeed, perhaps the most convincing evidence of all to support the thesis that organisations' ability to resist the detrimental impact of the crisis was not determined by how effectively it could reduce labour costs can be found in a large study of 8,000 firms conducted by Zagelmeyer and Heckmann (2013). Their analysis found that it was the market conditions for their product, firm size and financial variables that were more important in determining firms' fate than labour market variables. Indeed there was no association discovered at all between the extent to which labour flexibility measures were implemented (how easily they could make their workforce redundant) and their ability to deal with the crisis.

Another post-crisis trend has been opportunism in management behaviour in some firms. Those which had been aiming to carry out major organisational change and redundancies before the crisis suddenly began to do so, using the difficult economic climate to justify such policies, even though the evidence suggested that their decisions had little to do with the recession. For instance one study found that 41 percent of HR Directors believed that the crisis provided an "opportunity" to shed poorly performing employees (Sheehan, 2009) and others expressed that it was the weakened position of the trade unions that allowed them to execute such long-awaited actions. An increased use of disciplinary actions against workers during this period of turbulence was also reported by trade union leaders (Gunnigle, Lavelle and Monaghan, 2013; 2013).

So what of the impact of the global crisis on employment relations (ER)? The answer to such a question varies depending on numerous factors, not least the national context, "variety" of capitalism under which the institutionally embedded relationship between business, labour and the state exists and of course the nature, size and sector of the organisation under discussion. Both neoclassical economic theory and much of the ER/collective bargaining literature suggest that owners and managers will seek to exploit trade unions' and employees' weaker bargaining position during periods of economic instability in order to implement unfavourable changes in the conditions of employment that enhance the position for capital in the balance of power in relation to labour. SMEs tend to focus on pay-related cost-cutting to do this while in large organisations, alternative HR measures are more evident, including layoffs (Lai et al., 2016).

Both the spaces for collective bargaining to occur and the outcome of such negotiations will also be considerably affected, with some firms taking advantage of short-term emergency situations to improve longer-term efficiency by segmenting the workforce with different levels of certainty and security (Johnstone, 2018). However once again we see how the direction of travel may be contradictory. For instance increasing moves towards social partnership agreements at a national level have occurred in recent years in countries like Ireland, whilst union influence and power have often declined at firm level. However, in an era where private-sector businesses (especially MNCs and large enterprises) tend to either be union avoiders, so have very low union-density and often no collective bargaining agreement in place, or have retained a strong union presence for culturally embedded or historical reasons so enjoy collective bargaining agreements has meant that the crisis period since 2008 has witnessed an accentuation of differentiated ER systems coexisting in economies and sometimes even within the same industry. In fact in those industries where national pay agreements exist, many individual private-sector firms managed to get away with ignoring aspects of such agreements, while the unions possessed little capacity to prevent it (Gunningle, Lavelle and Monaghan, 2013).

Nevertheless, global turbulence presents mixed opportunities for trade unions. Interest in joining increases to match rising resentment on issues of pay, conditions and particularly, redundancy. Cyclical crises thus present possibilities for unions to reverse general trends in declining membership that have been witnessed across the global north since the late 1970s. However, such trends may not be sustained. In the UK for instance, whilst private sector trade union membership increased by 150,000 between 2010 and 2013 (BIS, 2014) there has been a fall in predominantly public sector union membership subsequently (BIS, 2017) .

Yet the strategies that the unions pursue to defend their members against job losses or deteriorating conditions also varies significantly depending largely on individual union political culture, membership density and disruptive power. Public sector unions have had a greater tendency to take industrial action and organise protest marches in the UK during the crisis. In many multinational companies meanwhile (with some exceptions), declining densities, weaker cultures of militancy and the ongoing existential threat of offshoring, has meant that union power has diminished and only had a limited ability to prevent redundancies at company level. In practice, unions' role was often reduced to negotiating to ensure any job losses were only voluntary and that redundancy terms could be offered that were above the statutory minimum (Gunnigle, Lavalle and Monaghan, 2013).

This leads on to a final question that we must ask as students and practitioners of Human Resources: how have businesses been forced to modify the role of the HR function due to global turbulence as an external environmental factor? Certainly HR was traditionally confined to playing an administrative role within organisations, but its brief has broadened in recent decades and is generally accepted to also contribute to firms' strategic input today (Sparrow and Hiltrop, 1994). Thus one would anticipate the HR function to be central to organisational decisions in responding to the global crisis. Roche et al (2011) propose three scenarios in terms of how companies have dealt with a changing role for the HR function following the crisis.

Firstly, there were those organisations for whom the long-standing modes of HR employment were irrevocably transformed and its function was drastically reduced. In such cases, operational-level HR activities were offshored and the numbers of employees in such departments were reduced. Thus, even though HR was given a central strategic role during the crisis among many large companies, the HR function itself became subject to the same restructuring processes, despite the need for HR professional involvement in such actions (McDonnell and Burgess, 2013:194). Within MNCs and large firms this involved moving towards centralised "call centre" approaches or the introduction of "shared service" models. Whilst on the one hand this inevitably saved labour costs, the implementation of such models has led to concerns about privacy and also to employee care being deprioritised against cost-saving (Ulrich et al, 2008). Such moves have triggered a decline in trust among the workforce.

Secondly and more commonly, the crisis has actually led to an elevated strategic role for HR within companies. In an increasingly competitive environment, many organisations have sought to move towards a “high performance” work organisations (HPWO) model. Whilst fundamentally reconfiguring their objectives and modus operandi. This has meant that HR Managers increasingly sit on executive boards and HR departments are being required to design and implement new training, contracts, target-setting and so on with the aim of becoming HPWOs.

The third scenario they observe is a more pragmatic one that entailed only incremental rather than profound change. Under this situation, HR’s more active participation was required to facilitate labour cost efficiency programmes but whilst preserving the number of employees (via reducing bonuses, freezing incremental pay rises and suspending new recruitment). Such situations are often mediated by government interventions or by pre-existing collective agreements.

Since 2008 in many countries that experienced recession, evidence of each of these three scenarios have become commonplace. HR managers and departments within companies not only played an enhanced operational-level role as the principal delivery agent that managed the restructuring activity (downsizing, reduced working time, lay-offs, concession-bargaining and ensuring compliance with legal standards), but also strategically intervened by advocating employment policies that encouraged redundancies only when all other options had failed (Roche et al, 2011). Further, HR even penetrated the corporate level in some MNCs in terms of informing key decisions, including those related to investment and acquisitions (Gunnigle, Lavalle and Monaghan, 2013). Meanwhile several governments also endorsed ‘bringing the HR professional back in’ by supporting training schemes for those who had lost their jobs, like Ireland’s apprenticeship programme and Germany offering staff development opportunities to workers on short-term contracts, thus requiring HR professionals to manage and coordinate these.

The crisis has demonstrated that there also appears to have been a shift away from “hard HR” approaches, towards “soft HR” approaches (Guest, 1990). In the former case, labour is viewed as cost to be minimised and during a crisis this would involve redundancies, recruitment freezes, declining training and development opportunities and the lowering of working hours. In the “soft” approach, workers are seen as an asset, so priority is given to preserving motivation (not merely because they fear losing their jobs as described earlier) and investing in those who have and will make the organisation successful. Such “soft HR” approaches include increasing employee participation in decisions, delivering strong and clear communications to them and re-training staff.

In terms of differences between individual firms, the HR function is more likely to be a determinant in the organisation’s response to global turbulence in cases where business strategy is already aligned with its HR strategy. Study after study has proven that where these two strategies are integrated, firms gain greater competitive advantage. Thus when organisations seek to alter their business strategy and planning following external shocks, HR Departments will exert much greater influence in this process where this is already the case (McDonnell and Burgess, 2013:191).

One thing that those companies pursuing the "hard HR" approach and the stripping down of the HR function and rationalisation of employees may learn the hard way is that when you dilute your HR team, you by definition weaken the mediating force that manages the "structured antagonism" built into the employment relationship (Blyton and Turnbull, 2008). What may appear to be saving immediate costs could harbour growing resentment in the future because workers' job security, remuneration and conditions come under sustained attack.

Lessons from the Crisis for HRM

The experience of economic crisis has been a deeply painful one and has probably directly or indirectly affected almost every human being on the planet in some way. It has been especially distressing for the millions of citizens who lost their jobs or suffered pay cuts, saw their businesses close, had their homes repossessed, suffered austerity measures or were adversely affected by the drop in world trade. A chapter on HRM and global turbulence would thus be rather shallow if it did not seek to draw upon the experiences of affected workers and businesses during the last decade to share and advocate best practice HR strategies for firms that alleviate the harmful impact of the crisis for both parties. Here these will be divided into three parts' communication, motivation and employee participation.

In the aftermath of economic crises, many firms struggle to implement the necessary adjustments. Cutting production or reducing labour costs can be extremely damaging for the company brand, morale, productivity and even for future profitability if delivered insensitively. However, the literature combined with an analysis of cross-national post-crisis responses reveals how such problems may be alleviated.

One issue is communication. Periods of economic crisis inevitably create a greater sense of insecurity. Whether management choose to downsize or restructure or not, the 'rumour mill' is triggered during such times, exacerbating such insecurity, affecting employee morale, health, motivation and ultimately productivity. It is therefore crucial to avoid an "information blockade" and keep employees well informed about the likely impact of the crisis, any restructuring plans, the crisis "exit plan" and of their role as individual workers within the organisation (Buley et al, 2016). Notwithstanding regulatory compliance on workers statutory rights on such information, such honesty should be the basis of the manager-employee relationship. It will create greater legitimacy in management and so induce greater support for other measures that managers need to take to ameliorate the impact of the external shocks. Transparency and regular communication will reduce the possibility of labour challenges (especially if the workers' representative bodies and trade unions are consulted about how proposed organisational restructuring will be carried out, whether recognition agreements are in place or not).

A second issue is the need to maintain morale and motivation among the workforce during tempestuous times. The need to apply a selection of appropriate motivational theories is essential, whilst appreciating that individual workers will be motivated by different stimuli (McClelland, 1985). However given the financial constraints that companies will likely be subjected to, non-material rewards such as moral encouragement, achievement-based incentives, promotions and additional “cost-free” or even cost-saving perks that will generally impress employees. These include offering flexible working, working from home options and so on. Known as a Results Orientated Work Environment (ROWE), this policy effectively amounts to allowing employees to work however they like, so long as it produces results. First trialled at North American electronics retailer, Best Buy, ROWE was popularised during the economic crisis following publication of a book by Thompson & Ressler (2008), before being adopted by a number of large and medium-sized companies. It was claimed to have had positive impacts on motivation and applying such a policy also reduced gender and other social inequalities. Other motivating activities include the staging of low-cost corporate or social events during such times or by appointing “crisis champions” as agents of influence to inspire other workers and to prevent fear and discouragement from spreading. Often these will be older or more loyal employees who may also propagate positive myth-building about the businesses’ social goals, historic past or other motivational tools to encourage team spirit and loyalty. It was found that following such measures productivity rose by 41 per cent (Buley et al, 2016).

Employee participation is also important to aid with worker buy-in to management decisions. The importance of communication is integral to this, but also is the fact that management styles may have to change so as to involve the workforce more in decisions and in carrying through anti-crisis solutions. In this way employees and unions will first feel ownership and responsibility for the company’s prospects and secondly will be more sympathetic to the leadership. One study (Kranz and Steger, 2013) found that during the crisis, although many corporations had planned to improve the spaces for employee engagement, actually the immediate pressures on management during the crisis accentuated traditional hierarchical forms of decision-making and fostered more authoritarian leadership styles. Worker representative organisations effectively became engaged in passive co-management while resentment built and morale declined, generating lose-lose results for all concerned.

Alternative Models of Organisation: What Role for HRM?

So far we have analysed many of the options open to managers and business owners that are suggested as ways of adapting to crisis in the mainstream HR literature. However establishing cooperative working and workers’ self-management is an alternative option which not only has a long history in the labour movement but has also proven to be viable.

During the GFC over 1,000 businesses in the EU that were in the process of closure were transferred to, or bought out by the employees and then re-established under the worker cooperative form. They were also found to be more likely to survive the crisis than other forms of enterprise and are more resilient (CECOP, 2013:11-12).

There are multiple advantages of this model, especially when the alternative is selling off the business to venture capital investors (Ozarow and Croucher, 2014).

First, “working for oneself and others”, encourages firm-loyalty and motivation and can have positive effects on productivity. Compulsory redundancies usually follow private company takeovers because the new managers are still incentivised by the profit motive so will seek to asset strip and reduce labour costs. In contrast under the new cooperatives, the employees essentially become “owner-workers,” so the business objectives are to prioritise saving jobs at all costs, even if it means collectively agreeing short-term reductions in wages, payment in goods or services instead of cash, or delayed payment of salaries. Preventing redundancies also generates cost-savings to the state which wouldn’t have to pay out unemployment benefits.

Secondly, whilst the drive to run efficiently is not lost completely, the principle business aim under such cooperatives becomes to reinvest the surplus into the preservation of existing jobs, creation of new posts, wage increases where possible.

A third advantage is that the workers themselves, often having worked at the plant, factory or office for many years have an intricate knowledge of the business, product and work ethic. They will also have developed their skills and enthusiasm over a long period, so under a worker buyout agreement, the human capital is not forfited but remains in the firm.

Fourthly, companies that transfer ownership to their workers often benefit from positive public relations and improvements to brand image to the public, especially if the company is local, as it is viewed as supporting the community of coming “from” the community. This can boost demand in the longer term.

Meanwhile, the benefits for the old owners are that they are obviously compensated for the sale of their business (either by the endowment paid by the worker plus sometimes state subsidies). Because the business transfer will go to people they know (and usually trust, depending on the strength of the prior working relationship), transfers can occur more quickly than selling to a venture capitalist.

Other hidden benefits include that there can be knock-on effects for reducing social equalities and improving democratic participation in society if the cooperative project expands because (in theory at least), there would be a more equal distribution of revenue and power among cooperatives with flat or flatter structures. In practice gender and other inequalities persist in cooperative firms, but often at a reduced level.

The European Commission’s (2013) 2020 Action Plan prioritises support for such business transfers, referring to them in the context of encouraging social enterprise and creating a friendlier capitalism whilst also aiming to support the “failed entrepreneur” by providing them with a second chance to pass on their business to a single acquirer.

In terms of the disadvantages, some cooperatives may experience a loss of trading partners following the transfer, as their business owners have reservations about the future of the new cooperative company or are simply ideologically opposed to coops and prefer to switch to a different trading partner. Sometimes the owner of the old enterprise may not get a good a deal in financial terms as they are depending on their former workers to raise the funds, whereas wealthy investors may be in a better position to make a higher offer. Finally this can be a risky enterprise for the workers, especially if in the case of taking over bankruptcies, they are left with the old company debts.

Whilst priority worker buyout rights for firms does not yet exist in the UK, elsewhere in Europe such laws have been functioning for many years. For instance in Italy (Marcora Law), Spain (National Fund for Work Protection) and France (Solidarity and Social Economy Law).

Conclusion

One of the most celebrated quips of the 20th century is that of the Chinese Premier Zhou Enlai who when asked about the impact of the 1789 French Revolution, purportedly answered “it is too early to say”. There is considerable disagreement about what the long-term impact of the global crisis will be. Yet if there is a lesson to be learned from Enlai’s wisdom of taking a long-term view of history, it is that the future of the global economy will be one of continued instability and perpetual cycles, patterns that have characterised the last two hundred years of capitalism. There is near consensus that the global crisis that began in 2008 was attributable to an inherent systems failure, but less consensus on whether the post-crisis reforms have been sufficient to prevent future crises from occurring. In June 2017 the Bank for International Settlements warns that a new global financial crisis could be brewing in China, the world’s second-largest economy. The degree of activity to which HR professionals will be subjected will also surely fluctuate in response to the changing fortunes in the global economy and thus for businesses, their strategies and planning. However, in order to be best positioned to deal with the next bout of turbulence when HRM once again comes to assume further strategic centrality within organisations, is vital to learn the lessons of the last decade and to be able to evaluate the full range of HR solutions that have been tested since the 2008 crisis.

In terms of the consequences of the crisis for resourcing decisions themselves, managers report a demonstrably greater willingness by employees to capitulate to flexibilisation and a deterioration in working conditions in order to protect their employment (Gunnigle, Lavelle and Monaghan, 2013). Workers are feeling increasingly vulnerable due to the persistence of underlying labour market weaknesses alongside growing pressures on their living standards. This is also potentially weakening their willingness to take collective action to restore rights and conditions that were once taken to be the norm. However, HR’s role and influence has certainly not been relegated to the periphery of management functions as their preoccupations with finances and costs dominate their decision-making. On the contrary, the HR function has not only played a crucial role in managing the fallout of crisis and associated restructuring, downsizing and deteriorating pay and conditions but has apparently played a classic “conformist innovator” role (Legge, 1978) in seeking solutions that produce tangible financial benefits for firms whilst minimising collective resistance.

Thus HR’s status and legitimacy has been enhanced in some corporate eyes, as HR has made a prominent contribution to evaluating proposals on acquisitions, logistics, investment and outsourcing among many other management decisions (Gunnigle, Lavelle and Monaghan, 2013). However the strengthening of many HR dimensions has simultaneously been accompanied by the trimming down of the HR function in other respects, including the hollowing out of the role of the HR professional as trends move towards a shared services model and outsourcing of an increasing number of tasks in an effort at labour cost saving. The role of HR will continue to transform and so it is imperative for those of us in the field to understand the external environment that affects it and generates such changes.

HRM in the Media: Critical reflections

1. Companies go bankrupt in normal times without this kind of response from workers. Why do you think workers reacted differently in this situation?

The creation of worker cooperatives or even “worker recoveries” become much more common during crisis periods because often the associated high levels of unemployment mean that the only alternative once one is made redundant when their company closes, is poverty. There are few jobs available in the economy so alternative forms of individual coping strategies reduce. Further, during crises, states often come under pressure to cut public spending, including welfare, so in the absence of sufficient safety nets when unemployed, workers are forced to take more radical action to defend their livelihoods. Finally crises often lead to increased politicisation. Unlike times of macroeconomic prosperity, those who become unemployed tend to attribute away from themselves towards systemic factors that require collective responses.

2. What would a conventional HR ‘rescue package’ for a failing company consist of?

Conventional ‘rescue packages’ for a firm will include possible asset stripping following a takeover or specific impacts on HR such as downsizing, wage freezes, redundancies, offshoring, outsourcing and other measures designed to preserve the existing ownership structure.

3. How do you think the HR function would operate under the new cooperative business structure?

In terms of how the HR function would operate under the new cooperative business, we must recall from earlier how the new HR strategy will need to align with the broader business strategy. The business goals would have transformed (as outlined above), so in the case of future external shocks that put pressure on the firm to cut costs, whereas training and development is one of the first areas to be rationalised in the case of the traditional firm, because the cooperative would be steered by the notion of investment in its workers, spending on such costs would probably be maintained. Clearly, as a cooperative the job-preserving goal for its members would mean that outsourcing or offshoring would contradict these objectives, so HR would continue in-house. Rather than operational tasks that deal with redundancies, HRs role would be to advise how jobs might be saved and where non-labour costs could be trimmed. Some cooperatives ensure that all their owner-workers are paid the same or deliver the same length of the working day so as to ensure equality. Thus the role of HR will be to steer the process of collectively agreed wage or working day reductions to save these jobs.

4. What role could trade unions play in an arrangement like this?

Trade unions are sometimes hostile to the notion of cooperatives. The reason is that they were established in the context of traditional capital-labour relations to act as labour’s representative voice against owners. Thus under cooperatives (where the owners are also the workers), their very raison d’etre is removed as there is no longer the need for a mediator. So they have to redefine their goals under the new ownership structure. Often trade unions in cooperatives become more outward looking and end up seeking to advance the cooperative movement to the outside world rather than dealing with internal matters.

Explore Further

STIGLITZ, JOSEPH: (2010) Freefall: Free Markets and the Sinking of the Global Economy, London: Penguin Books

This book provides a convincing, coherent and humane account of the causes and consequences of the global economic crisis.

PICKETTY, THOMAS (2014) Capital in the Twenty-First Century, Harvard University Press

This is a book that became both popular and notorious after the crisis by seeking to explain the causes of economic and social instability through an empirical analysis of capitalism in Europe and North America and how it generates enormous inequality.

MALIK, ASHISH (2018) Human Resource Management and the Global Financial Crisis: Evidence from India's IT/BPO Industry. Oxon: Routledge

This book analyses managerial responses and human resource management strategies and processes adopted to deal with the challenges imposed by the Global Financial Crisis (GFC), using a case study from India's IT Sector.

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