



BANKING ON HRM TO BOUNCE BACK AND UNLEASH OPPORTUNITIES UNDER THE NEW WORLD ORDER

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1. Introduction

“If there was ever a time to underscore the importance of HR, it has arrived. And sadly, if there was ever a time to see how few companies get HR right, it has arrived, too.... If their company is in a crisis – or their own career – perhaps they’ve at last seen the light. **HR matters enormously in the good times. It defines you in the bad.**”

The WelchWay, Business Week, March 23 & 30, 2009 (by Jack Welch, globally respected business leader and Forbes’ CEO of the Century)

The world is at crossroads today due to many crisis situations created by mankind, directly or indirectly, which threatened the peaceful co-existence and good living for many millions. The industrial giants once regarded as strongest and unshakable have simply evaporated into thin air leaving behind nothing but piles of debt. Millions have lost their jobs and means of living. Many others are living in paranoia waiting the axing of their livelihood at any moment. Therefore, as pronounced in the above quote, HR is under spotlight more than any other profession in the world today because ultimately everything ends up with people.

The chart below gives a glimpse of the crisis in terms of rising unemployment rate in the US.

Figure 1 – Trends in the unemployment rate in the US



Source: U.S. Bureau of Labour Statistics



2. Background

The present economic recession began with the oil crisis which hurt the nations across the world and was followed by a food crisis and finally an economic crisis. It is said that “*History repeats itself*”. So we see that the world is undergoing the worst ever economic recession after the Great Depression in 1929.

The economic slump in 1929 was due to the greatly unequal distribution of wealth throughout the 1920’s, and the extensive stock market speculation that took place during the latter part of that decade. The mal-distribution of wealth in the 1920’s existed on many levels. Money was distributed disparately between the rich and the middle-class, between industry and agriculture within the United States, and between the U.S. and Europe. This imbalance of wealth created an unstable economy. The excessive speculation in the late 1920’s kept the stock market artificially high, but eventually led to large market crashes. These market crashes, combined with the mal-distribution of wealth, caused the American economy to capsize (Gusmorino, 1996).

In contrast, the latest crisis originated in lending to un-creditworthy borrowers in the housing market commencing from early 1990s. This practice which is totally against the accepted norms of lending has been termed as sub-prime lending. Though it started on a small scale the new way of lending seems to be profitable due to higher rates charged in consideration of higher risk. Soon the practice spread to many financial organizations and the mortgages were traded in the debt market, in other words the risk was transferred to someone else.

In 2006, when higher rates finally kicked in, declining housing prices caught many homeowners, who had taken loans with little money down, by surprise. As they realized they would lose money by selling the house for less than their mortgage, they foreclosed. An escalating foreclosure rate panicked many banks and hedge funds, who had bought mortgage-backed securities on the secondary market and now realized they were facing huge losses.

By August 2007, global banks were unwilling to lend to each other as they did not want these toxic loans as collateral. This led to the \$700 billion bailout in the US, and bankruptcies or government nationalization of Bear Stearns, AIG, Fannie Mae, Freddie Mac, IndyMac Bank, and Washington Mutual. By December 2008, employment was declining faster than in the 2001 recession. The wave of bankruptcies commenced in USA and Europe spread across Asia and other parts of the world causing severe hardship to the affected countries.

In the Sri Lankan context, according to an ILO consultant about 96,000 jobs were lost in the industrial sector, with 60,000 jobs lost in the apparel sector followed by the construction sector. However, 203,000 new jobs were generated in the agricultural sector, with 129,000 jobs in the services sector. In spite of that, further job losses were predicted towards the end of the year since the economies in our principal export markets are still in recession.



One conclusion can be drawn from this: when the base is not sound, no structure, however sophisticated could weather such a storm, be it an organization or country. In other words we are back to basics in terms of business practices and, "Prudence" is always indispensable.

3. Key challenges for businesses

Professor Jean-Pierre Lehman argues in his article titled "The Four Key Economic Challenges for Today's Global Business: Strategic Implications for 2008" that modern businesses need to understand the global economic realities in order to survive and grow. Though the article refers to 2008 in particular the facts and arguments are valid even for today.

During the recent past the crash of Citigroup and UBS, the banking giants, has been halted by the Asian and Middle Eastern investors by pumping US\$7.5 billion and US\$11.5 billion respectively. The rising tide of emerging market funds and multinationals from South investing in the rich economies of the North is only one of the many tectonic transformations occurring. Not only is there a lot of movement of capital in the other direction (South – North), but also an amazing amount of growth in South – South transactions. For example trade flows between the Middle East and China in the year 2007 totalled US\$69 billion, up from US\$6 billion in 1995. This amply shows that the opportunities are at the door step; i.e. in the Asian region itself, contrary to the belief in the dependence on economic hubs in USA, UK and Europe.

The article referred to above identifies following challenges;

3.1 "BRICs"

While all four "BRICs", Brazil, Russia, India and China, and other key emerging economic players will continue to surprise global business, China will be way ahead in terms of its impact on almost every conceivable facet of the planet one can think of: climate, geopolitics, trade, sport, finance and forex policy, tourism, energy, commodity prices, infrastructure, etc. While China's economy is still small compared to the US, its contribution to global GDP growth is significantly higher, 31% for China as opposed to 15% for the US in 2006, and can be expected to become even more so. American multinationals such as GE are looking to China for profits to offset the losses they expect to make in the recessionary US. The question is no longer whether economies can "de-couple" from the US, but how the process of "reverse coupling" – US dependence on China and other emerging markets – will occur (Lehman, 2008).

The above paragraph gives us an indication that the business across the world will have to compete with "BRICs", perhaps more with Chinese products. In other words it refers to the winning formula of building competitive edge against mass production at incredibly low cost and dumping tactics of Chinese producers.



3.2 Politicizing global business and protectionism

When a government embraces politically sensitive issues of another government it would lead to complete jeopardizing of trade and business opportunities which would have otherwise benefitted both the countries. For example Germany's hospitality towards the spiritual leader Dalai Lama angered China. That phenomenon is not new, but the pattern will intensify and multiply. As the institutions of global economic governance are experiencing a systemic crisis, a whole spectrum of unhealthy "isms" will be a prominent part of the global business fare: economic nationalism, mercantilism, bilateralism, preferentialism, unilateralism and protectionism (Lehman, 2008).

In a more glaring incident of protectionism, the Tata Group was rebuffed when it sought to acquire the American luxury leisure group Orient-Express on the grounds of its allegedly un-classy Indian origins. The French government had also rejected the Tata Group's attempt to purchase the iconic Champagne brand Taitinger for the same reasons. Snobbishness, security, identity, pride, national policy, whatever, business will become increasingly politicized and less globalized. It may also, as it already is in many respects in reaction to the "Chinese challenges", become a sub-theme of the "clash of civilizations" syndrome (Lehman, 2008).

In a highly volatile and global, political and ideological environment, companies can also expect unpredictable events in which they may find themselves to be "innocent victims", as happened to the Danish Dairy company Arla in the Middle East, following the publication of a cartoon on Prophet Mohamed in a provincial Danish newspaper (Lehman, 2008).

In summing up above it is evident that the politics and business are two sides of the same coin; one cannot be separated from the other. Therefore, business leaders need to feel the pulse of politics, especially among cross borders in order to survive and thrive. This requires out of the ordinary strategic thinking and leadership skills.

3.3 Poverty, inequality and the "bottom-of-the-pyramid"

Just as the politicization of business is hardly new, neither is poverty or inequality. The differences today are:

- i. that inequality seems to be increasing everywhere
- ii. it is more visible to the masses in this information age.

Though there are encouraging statistics in respect of poverty reduction – especially in East Asia – the fact remains that somewhere in the region of 50% of the planet's population, some three billion people are still too poor to participate in the global market economy. One meaningful indicator is that it is estimated that half the world's population has never made a phone call. As mobile technology is one of the most poverty "friendly" technologies, that figure should be reducing sharply, but nevertheless evocative of our global age. More dramatically, about a third of



the world's population does not have access to drinking water or proper sanitation. The plight of the poor stands in increasingly visible contrast to the plenty of the very rich. It is said that the Mexican tycoon Carlos Slim has been increasing his wealth since 2005 by US\$27 million a day, while 20% of Mexico's population lives on less than US\$2 a day. Not only, however, is there a yawning chasm between the rich and poor, but even among the "haves", as opposed to the "have-nots", there are growing and gaping disparities between those having a-hell-of-a lot-and-more-and-more and those having less-and-less. The Gini coefficient (which measures income disparities in countries) is growing by leaps and bounds virtually everywhere. On the basis of current demographic trends, where rich are having fewer and fewer babies, and the poor are seeing population explosion, two main consequences arise;

- i. social unrest could become endemic through great swathes of the planet
- ii. the great market opportunities for businesses will increasingly be found in what C.K. Prahalad termed the "bottom-of-the-pyramid (BOP)"

BOP strategies are increasingly an imperative for firms, both for reasons of political and social commitment, in order to "improve the state of the world" and thereby decrease risk, and because that is where future profits are to be reaped. From an enlightened self-interest perspective, business strategies should aim at empowering the "aspiring" classes and at reducing inequalities (Lehman, 2008).

The summing up of above facts enlightens us on a new aspect, that poverty and inequality are fields of opportunity for businesses as against conventional thinking, where they were considered as barren lands.

3.4 A green agenda

The environment issue is another radical recent transformation. Twenty years ago the greens were marginal. Today, environment is a key policy and an increasing strategy priority. While the public policy process – in environment as in so many other issues – is advancing at a snail's pace, increasingly the agenda is being driven by visionary businesses. The term "sustainable" has become integrated in the rhetoric, strategy and consciousness of business. As with poverty and equality, it is probably the case that the private sector may have the most contribution to make in the face of environmental challenge through innovative technologies and business practices. This is not to say that ecology-oriented NGOs should relax and cease worrying about the potentially environmentally destructive effects of business activities, on the contrary, but the point now is that corporations – not only in the industrialized countries, but also in developing countries – are much more susceptible to environment-driven external perceptions and pressures (Lehman, 2008).

Concern for nature is a concern for people. Therefore businesses need to look at the problem from a new perspective, to be closer to the nature and to produce zero waste.



4. How to overcome challenges?

In summing up key challenges faced by a business entity as discussed under sub-heading 3.1 – 3.4 above, following key factors emerge:

- Outperform BRICs in terms of competitive edge
- Ensure a smooth sail without being a victim of politicization and protectionism
- Uncover the opportunities lying at the bottom-of-the-pyramid
- Have a greener approach in conducting business.

Let's examine each of the above key factors in greater detail in order to uncover a possible way out.

4.1 The competitive edge

According to the web definition the competitive edge means having a clear advantage over the competition in terms of one or more elements of the marketing mix that is valued by potential customers¹.

The marketing mix (extended version) as per Wikipedia² is:

- **Product** - A tangible object or an intangible service that is mass produced or manufactured on a large scale with a specific volume of units. Intangible products are often service based like the tourism industry & the hotel industry or codes-based products like cell phone load and credits. Typical examples of a mass produced tangible object are the motor car and the disposable razor. A less obvious but ubiquitous mass produced service is a computer operating system.
- **Price** - The price is the amount a customer pays for the product. It is determined by a number of factors including market share, competition, material costs, product identity and the customer's perceived value of the product. The business may increase or decrease the price of product if other stores have the same product.
- **Place** - Place represents the location where a product can be purchased. It is often referred to as the distribution channel. It can include any physical store as well as virtual stores on the Internet.
- **Promotion** - Promotion represents all of the communications that a marketer may use in the marketplace. Promotion has four distinct elements - advertising, public relations, word of mouth and point of sale.
- **People** - all people who directly or indirectly influence the perceived value of the product or service, including knowledge workers, employees, management and consumers.
- **Process** - procedures, mechanisms and flow of activities which lead to an exchange of value.

¹ wps.pearsoned.co.uk/wps/media/objects/1452/1487687/glossary/glossary.html

² http://en.wikipedia.org/wiki/Marketing_mix



- **Physical evidence** – the direct sensory experience of a product or service that allows a customer to measure whether he or she has received value. Examples might include the way a customer is treated by a staff member, or the length of time a customer has to wait, or a cover letter from an insurance company, or the environment in which a product or service is delivered.

In the above mix one significant element is “People” whose perceptions and behaviours would eventually have a bearing on all the other elements. In order to support that argument let’s quote from Jack Welch:

“In the end, all business operations can be reduced to three words: people, product and profits. Unless you’ve got a good team, you can’t do much with the other two”.

Here, “people” means largely the employees of an organization. In other words the competitive edge would be ultimately the employees of the organization.

Now the question is how to groom people with competitive edge over BRICs. The answer definitely lies in the hands of HR which is addressed in the next sub-heading titled “The role of HR”.

4.2 Strategic leadership

Leaders and leadership are widely discussed topics in every forum be it related to business, politics or religion. The following quote amply demonstrates the concept in a nutshell:

“Men make history and not the other way around. In periods where there is no leadership, society stands still. Progress occurs when courageous, skillful leaders seize the opportunity to change things for the better.” — Harry Truman

When it comes to business, the leader (top CEO) should be skillful enough to sail the business without too much of politicizing the business. If not the business will be tagged which is detrimental. However, it is difficult to mention to what degree a balance needs to be struck since it is purely judgmental.

The other major challenge is the protectionism adopted by countries mainly to protect local industries. One time India was a living example of that policy. However, shrewd business leaders took risky decisions to set their businesses with the collaboration of local partners. The good example is Zuzuki Corporation of Japan³³ which took over the majority stake of Maruti Udyog Ltd, the first car manufacturer of India. Today the company has grown in leaps and bounds and India stands as the fourth largest exporter of automobiles.

The action and the mindset of leaders can change the way things happen amidst all odds. So businesses need leaders with uncanny vision and courage. Bringing up such leaders in the corporate world is again the responsibility of HR.



4.3 Unconventional thinking

In economics, the **bottom of the pyramid**⁴ is the largest, but poorest socio-economic group. In global terms, this is the four billion people who live on less than \$2 per day, typically in developing countries. The phrase “bottom of the pyramid” is used in particular by people developing new models of doing business that deliberately target that demographic, often using new technology. This field is also often referred to as the “**Base of the Pyramid**” or just the “**BoP**”.

An example of a product that is designed with the needs of the very poor in mind is that of a shampoo that works best with cold water. Such a product is marketed by Hindustan Lever. Another example is “e-Choupals” in rural India. The individual farmers could check the market trading prices of their produce and sell it directly to ITC, which manages an agricultural trading company. In this way the corrupt middlemen were eliminated, and farmers started getting a better price for their produce.

All above amply demonstrates the power of unconventional thinking in an organizational context. The creation of such an atmosphere is tribally a responsibility of HR.

4.4 Green approach

This is known as “Green Factory⁵” concept. The components of the concept are as follows:

Greenhouse gases	Minimize emission of greenhouse gases
Waste	Minimize discharge of waste
Chemical substances	Minimize risk of environmental pollution and accidents caused by chemical substances
Harmony with nature	Endeavour to preserve nature both on and off site
Environmental consciousness	High environmental awareness among employees
Energy	Minimize energy consumption



Resources	Minimize resource consumption
Atmosphere, water, soil	Minimize environmental burden on the atmosphere, water and soil
Harmony with the community	Encourage harmony with the local community
Information disclosure	Disclose information on the environment

The above aspects require thinking anew and getting used to a new way of setting up of office environment or manufacturing plants. Even the work processes may be changed accordingly. In this regard the contribution of HR in terms of designing new work places and work processes are absolutely valuable since all those affect the productivity of employees.

In Sri Lanka too this concept has gained ground where two leading apparel manufacturers in the country have set up plants in line with above.

5. The role of HR

As discussed in the introduction, during a period of economic downturn it is a common practice to save money by reducing staff, which may create more problems, as per the magazine "Hong Kong Industrialist"⁶ in its article on "Managing Human Resources for an Economic Downturn". It is easy to view employees as a commodity, and like other inputs of a business, demand fluctuates with the economic cycle. However, employees are much more than just a commodity; they are literally the heart and soul of any business, the essential ingredient of corporate competitiveness. Businesses focusing on the bottom line may have legitimate reasons to cut staff numbers; however staff retrenchment may also adversely impact on corporate competitiveness.

The article further discusses that as the essential ingredient of any organization Human Resources (HR) require prudent handling. During an economic downturn, HR policies would involve assessing whether or not to lay off staff, hunt for new talent as well as how to maintain morale.

³ <http://www.info2india.com/automobile/maruti/index.html>

⁴ http://en.wikipedia.org/wiki/Bottom_of_the_pyramid

⁵ <http://sharp-world.com/corporate/eco/factory/realize.html>



Having looked at how HR managers should act during the period of recession, now it has to be examined as to how HR could contribute to use the opportunities and key challenges discussed in the sub-heading 4, above as a base for rising from ashes.

Although volumes have been written on how to emerge from a slump from an economic perspective, very few have discussed the contribution of HR in this regard.

The economic downturn presents important opportunities to strengthen HR management capabilities for companies with strong balance sheets and compelling business models, argues David Bartlett in his article on “Managing Human Resources in a Global Downturn”. He suggests the following:

- Utilizing slack time to engage employees in professional development and technical training programs, which serve 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.

The above suggestions can contribute in the following manner for overcoming key challenges discussed above.

5.1 The competitive edge

There are two ways of achieving competitive edge in terms of human resource. One is training and re-training employees. The other is head hunting. The above two will be of no use unless the organization culture supports and facilitates achieving competitive edge. In this regard it is vital to understand the nature of the organization culture. According to Rob Goffee and Gareth Jones, the corporate culture, in a word is community⁷. It is an outcome of how people relate to one another. According to sociology, community is divided into two types of distinct human relations:

- **Sociability** – measure of sincere friendliness among members of a community. In a business set up this type of environment is enjoyable, boosts creativity as a result of fostering team work, sharing of information, spirit of openness to new ideas, expresses

⁶ http://www.industryhk.org/english/fp/fp_hki/files/HK1_06_cover_e.pdf



and accepts out-of-the box thinking. In this type of set up, individuals are more likely to go beyond the formal requirements of their jobs.

At the same time there are drawbacks as well, such as, the best **compromise** gets applied to problems not the best **solution**. Sub par performance, is excused.

- **Solidarity** – relationships based on common tasks, mutual interests, or shared goals that will benefit all involved. This creates a high degree of strategic focus, swift response to competitive threats, and intolerance for poor performance.

In contrast to above it may have drawbacks such as, everything will be based on “What is in it for me?”

In essence both the above need to be balanced. According to the research carried out as recorded in the article referred to in footnote 7, managers can take following steps to increase:

- Sociability
 - Promote sharing of ideas, interests, and emotions by recruiting compatible people – people who naturally seem likely to become friends.
 - Increase social interactions among employees by arranging casual gatherings inside and outside the office, such as parties, excursions – even book clubs.
 - Reduce formality between employees.
 - Limit hierarchical differences.
 - Act like a friend yourself, and set the example for geniality and kindness by caring for those in trouble. ·
- Solidarity
 - Develop awareness of competitors through briefing, newsletters, videos, memos, or e-mail.
 - Create a sense of urgency.
 - Stimulate the will to win.
 - Encourage commitment to shared corporate goals.

5.2 Strategic leadership - The cutting edge leaders know how to take an appropriate amount of risk, inspire trust, and create opportunities for success as per George Kohlrieser⁸. Accordingly, leading at the edge requires an artful mix of focus, motivation, inspiration and courage to take risks that constantly push the boundaries. In order to reap the benefits of leading at the edge, there are eight paths that need to become an integral part of both personal style and organizational culture:

- i. Develop your leadership talent through years of focused learning, training and practice
- ii. Lead from the mind’s eye

⁷ Goffee, R & Jones, G. (1996). What Holds the Modern Company Together? **HBR**



- iii. Build success through your secure base relationships
- iv. Lead through effective communications
- v. Lead through conflict management
- vi. Lead in a fragmented world
- vii. Lead through strategy
- viii. Leading at the edge is a journey

5.3 Unconventional thinking. This is where the creativity is at the helm. Again as discussed 5.1 above the critical factor is the organizational set up, especially the culture which promotes cross-functional collaborations and openness. The classic examples in this regard can be drawn from software developing companies like Microsoft and Infosys, where employees are given enough freedom to think creatively.

5.4 Green approach - This type of operation requires a very high degree of initial investment as at today. However, the benefits are immense. Instead of using coal based energy, attention is drawn to utilize natural resources in abundance such as sunlight and wind to generate heat or cold in modern offices. With the sophisticated technology available today, it has become possible to work from home in advanced countries though at very preliminary stage. Most probably the current set up of office environment will fade away as a practice of the primitive age.

6 Conclusion

In spite of the fact that there are many theories in HRM and best practices, the challenge is selecting the most appropriate one for one's corporate set up and delivering results through it, which is far more complicated than the theory or best practice itself.

In summing up all above one critical factor emerges; that is HR could face the challenges in any type of a situation when it could create value for stakeholders i.e., employees, line managers, customers and investors as per HR Guru, Dave Ulrich.

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⁸ Kohlrieser, G. (2009). Leading at the Edge. **Human Factor**, 1 : 60 - 61