

Organizational Strategy: HRM Strategy in Financial Crisis

Introduction

The recent financial crisis has weakened the profits of financial services industries and, thus, the latter are not able to invest on a large scale. As Nick Heath reports, "CB Richard Ellis found that not one bank or law firm chose to take up space in London, with new space split between approximately two-thirds retail and one-third technology" (Heath, Silicon.com, 2008). Thus, it is obvious that the financial services companies are facing a great financial problem. The financial crisis in the UK seems to have fallen into a full-scale recession. As the crisis spread, it was found out that a large number of about 20,000 jobs in the city were lost.

Background

Credit-rating agencies in London have drastically scaled down in terms of job growth by almost 5 % after a correction in their initial supposition that jobs would remain static. Around 400,000 people work in the financial districts of London, which means that the resulting 20,000 dismissed have had their impact on the depressed corporate property segment of the market, making it sink further in terms of employment. Under the condition of high unemployment rates, the financial services industry had no other way but to consolidate the entire scenario with the help of service charges and financial rates. One of the most widespread modes of operation in cost reduction that helped to sort out the given conflict was outsourcing (Heath 2008).

Under this circumstance it was found that Almost half (41 per cent) of 70 financial services managers questioned in a survey by the Management Consultancies Association (MCA) and the British Bankers' Association (BBA), expect to increase their current levels of outsourcing because of the credit crunch. (Heath, 2008)

Additionally, it was also reported that around 90% of the managers felt that the crisis resulting from the unemployment was inevitable. However, certain measures could have

changed the situation for better. Considering the core of the problem, one can learn what caused it and find the ways to avoid it in the future.

The Problematic Issue

The fundamentals of operation show a drop of cost from the point of view of the industry. This, however, is not encouraging for the employees of the industry but reduction of cost indicates sustainability of the companies in the long term, which is explained by competition enhanced to sustain the existing financial service markets. For the reason of sustaining healthy competition, the companies are trying to reduce charges and interests levied on the customers. However, the situation only makes the condition of the customers worse, since the latter suffer considerable losses, losing their jobs and, therefore, not being able to purchase the offered goods. Thus, it becomes important for the management to implement human resource management strategy to consolidate the situation (Kesler, 1997).

The Case of CompuWorks

CompuWorks, a software company located in London, faces the same problem concerning the unemployment rates. Due to continuous reduction of CompuWorks' business profits, it has been estimated that the Department of Information Technology and the Department of 1-800 Helpline need to discharge its employees (Kesler, 1997). Over the last few years, it has been found out that there is a gradual decline of profit for the company. After evaluating the situation, the company realized that the increased workforce of Department of Information Technology and the Department of 1-800 Helpline compelled the company to hire several employees into the Department of Information Technology and the Department of 1-800 Helpline, due to increased market demands during the 90s. However, with decreased market demands, these two departments are offered to discharge employees, as the service would no longer be

required by the company because of potential market conditions lack. There were several measures undertaken to help sustain the company's business, yet, unfortunately, the employees suffered in the end of the campaign: a number of people were dismissed for the sake of the company's well-being.

In order to survive in the market rivalry, a company is compelled to outsource its productions. It should be mentioned that the basic approach of the industry and the company is to keep with the planned pace even during the time of economic crisis. However, the crisis has resulted in an easier and cheaper mode of service for the users. On the one hand, outsourcing has made it possible to sustain the industry, and, on the other hand, price reduction has enabled the industry to lure customers with alleged benefits. Thus, in order to survive the crisis, it is necessary for the company to outsource the staff and reduce the cost of the goods so that the customers could be pleased.

It has been calculated that a high amount of average annual salary of \$55000, plus benefits, is spent on the 50 employees of the Department of Information Technology, but in the given situation there are not enough production opportunities to support these employees. It is evident that the dismissal of a number of employees would be beneficial for the company to sustain itself in the market.

The same is applicable for the Department of 1-800 Helpline when it comes to answering customers' questions about software and hardware as the demands have fallen and there is little need to answer such calls. It was discovered that, on average, employees earn approximately \$32000 annually, and the company finds this amount of money quite high, as there is low need in employees in this department.

It was also found that each of the employees hired needed office space and office equipment, which led to facility expansion and additional costs of approximately

\$15,000,000. As a result, the increased salaries, benefits packages, and office equipment costs caused CompuWorks considerable losses, and the company was compelled to issue the Report of Employee Discharge.

The management planned to convey the employees about the decision. In an open notice it was stated that over the past decade the administration and the employees have worked together to achieve targets on time, and make the company what it is today. However, due to the credit crunch and economic recession, the call of the day is to survive the period in order to develop in the near future. Given the situation it is clear that to sustain it is essential to maintain a cost reduction policy and for the purposed we are constrained to issue this discharge notice and look towards outsourcing options. The fundamentals of operation thus show a drop of cost from the point of view of the company.

This, however, is not encouraging for the employees of the company but reduction of cost indicates sustainability of the CompuWorks in the long term. The supposition concerning the CompuWorks' ability to withstand considerable rivalry is backed by the recent competition to sustain the existing IT service markets. For this reason, the companies are competing to reduce charges and interests levied on the customers. Thus, even under the conditions of crisis, the ultimate beneficiaries are the customers of the IT services industry. However, once the crunch period is over, the company is supposed to start producing goods according to its original production rates.

However, this approach was not appreciated by the employees, who inflamed continuous debates; as a result, a brief commotion was held among the management and the employees. Thus, it is necessary to design a new approach that will be favourable for the situation. It is needed for the Human Resource Management to formulate proper strategy to counter such situations.

Approach of Human Resource Management

Management can be defined as the art of creating industrial relations of any kind, between people engaged in the given industry, such as relations between employers and employees, relations among individuals entering into commercial contracts, relations between investors and debtors, etc., in order to maintain the cooperation of all people involved into the given joint venture. The efficiency of management lies in not only in making the employees work, but also in making them work willingly, sincerely and consciously, by employing new knowledge, new methods, new designs, new machines, novel techniques of production, and by allaying mistrust and antagonism (Mathews, 1998).

The Human Resources Management (HRM) purpose takes account of several activities, the most important among them is making a decision what staffing requirements one has. HRM is also assigned to decide whether to use autonomous contractors or take into service employees to meet these needs, appointing and training the most professional employees, making sure that they are better performers, handling performance-related problems, and ensuring that the human resources and administrative practices are coordinated according to various set of laws. Legal actions also presuppose supervising the steps taken towards employee benefits and reimbursements, employee accounts and personnel guiding principle. In comparison to the legal actions, the strategic human resource management attempts to join together decisions about workforce in an organization along with the strategies formulated for obtaining the cherished goal.

In addition to being a very important advocate to organizational mission completion, strategic human resource management is the final level of human resource management responsibility, while human resource management responsibility must set

in motion with basic legal observance. HRM also encompasses all four levels of the management hierarchy, including being indicative of how human resource management advocates accomplishments of the organizational strategic goals. Research points towards those organizations that successfully arrange in a line human resources management with organizational mission completion do so by putting together human resource management into the organizational planning procedure, giving emphasis to human resource management activities that hold up mission goals, constructing strong human resource and management relationships (Lawler, 2003).

Recommendations

As the strategic human resource management aims at converging decisions about the employees with a prevalent apprehension about the objectives an organization is demanding to achieve, the increasing significance of competitive advantage and of the growing presence of multinationals has resulted in noticeable changes in strategic Human Resources Management (HRM) ideologies. Globalization has led employers to push for implementation of fewer directives of industrial relations, less standardization of the employment affiliations, and a greater focus on the workplace as the centre of gravity of Human Resources Management.

Of the three popular models in Human Resources Management, the global Human Resource Management model has the utmost coverage in international point of view due to worldwide growth approaches, degree of delegation, organization's dimension and requirement for deportee reimbursement, etc. Due to steady industrialization and accelerating competition in market, today organizations have to face tough time to survive. These conditions also affect human resource (HR) strategy and policies up to a great extent (Kesler, 1997).

Such an environment gives rise to organizational conflicts, such as the conflict of power versus moral values, which includes raising standards of production along with humanizing the workplace, mixing managerial prerogatives with ownership policies such as system, reliability, hierarchy, uniformity, etc., conflicts with sensitivity, responsiveness, interactivity, novelty and sub-optimization. In this competition, organizations are gradually losing their ethical values and morals. Today, competence of an individual or a corporate is judged by his/her ability to cope up with constant fundamental changes in the organizational structure. All over the world, organizations align new products, engineering teams around 'pit crew' model. Such elements of the effective business mechanism as cross-functional teams to design, manufacturing sales and service engineer's work and the workers, who at some point have stake in the product, enhances manufacturing and sales, ensuring that people can have their say all through the design process and building the manufacturing capability early on the current engineering (Lawler, 2003).

The goals of the organizational management are simple, including speed, equality and competitive price. Commodities have become international for most industries and the impact of engineering is significant. In many organizations, the learning curve in engineering has become an unaffordable luxury. Competitive pressures mandate finding ways to reduce the total time required to introduce new products in the market. Competition along with more complex production and distribution environments requires identifying and reducing necessary costs, such as costs associated with development, manufacturing, distribution, and service. Working conditions in some industries are very hazardous.

The precipitation areas in industries have caustic vapours that cause skin problems. In some industries, people work in fluoride environment. Continuous

exposure to fluoride leads to a disease Fluorosis in which bones and teeth are affected. In addition, less attention is paid towards the interests of their workers, hence, the relation between the management and the workers gets serious damage. Such circumstances account for greater need for application of Human Resources Management (HRM) in organizations (Mathews, 1998).

The new Strategic HRM role is to be observed from the viewpoint according to which Strategic HRM plays a significant role both as a means of scheming and as a method of delivering the human resource policies for an organization. The approach of human resource planning commotion is an end to segregation, but human resource planning commotion is often associated with the policy of the organization as a whole. Delivering a planned impact, human resource strategy is required to be in sync with the business goals and the schemes; moreover, the procedures incorporated must also hold up by being indicative of the required domino effect (Lawler, 2003).

Conclusion

It can be concluded that healthy relations between the management and the employees can bring prosperity to the company. Thus, the Human Resources Management system is not simply about trade unions and industrial relations between managements and employees (Mathews, 1998). In fact, it is the definition which portrays the projection and maintenance of understanding, solidarity, essential values and ethics as accepted by both the management and the workers of the companies. In contemporary Strategic Human Resource Management based on higher profit earning attitudes of the business authorities, human resources have come to dominate and employees are viewed as a cost for managing rather than an asset to be effectively deployed. Thus, it is basically a managerial frame of reference that is not quite compatible with companies or social positions that are distinctively more politically

influenced. As taken from the examples of the 'leading edge' companies like BP, Glaxo, BT, Hewlett Packard, Citicorp, WH Smith etc, instead of all drawbacks in HRM ideologies of management, it has numerous facilities (Lawler, 2003). Thus, the HRM approach could always be followed by the companies to find solutions for their management problems.

References

Heath, N. (2008, April). Credit crunch boosts outsourcing. *Silicon.com*. Retrieved from

<http://www.silicon.com/financialservices/0,3800010322,39248272,00.htm>

Heath, N. (2008). Credit crunch hits London data centres. *Zdnet.co.uk*. Retrieved from

<http://news.zdnet.co.uk/hardware/0,1000000091,39443781,00.htm>

Kesler, G. C. (1997). Implementing major change in the HR organization: The lessons of five companies. *Human Resource Planning*, 20(4), 26-37.

Lawler, E. (2003). HR as a strategic partner: What does it take to make it happen?"

Human Resource Planning, 26(3), 15-31.

Mathews, A. (1998). Diversity: A principle of human resource management, *Public*

Personnel Management, 27(2), 175-183.