

# Human Resources Management in the Corporate Crisis

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The paper is focused on the impact of the company crisis on personnel management. The main goal is to carry out a probe into the Czech medium to large companies and find out how personnel management works during the company's crisis. The research focuses on the importance of the human resources department in society and, of course, the impact of the crisis on human resources. The content of the paper will clarify the list of possible saving steps in the area of human resources management while the company is in crisis. Based on the research results, measures are introduced that cause minimal damage to the company's personnel strategy.

## 1. Introduction

Uncertainty and concerns about the economic situation and maintaining competitiveness in the global economy place high demands on companies worldwide. It is common knowledge that the success of a company today depends more and more on the quality management of human capital. With globalization and technological advances, today's organizations are continuously changing. Human resources and the potential they possess are key drivers for an organization's success. (Haslinda, 2009) Although the human factor's importance is well known, human resource management in companies is still underestimated. Personnel managers have long sought to convince top management that their role is not just to manage employee personal data and to provide the entire work cycle with administration, from planning, recruitment, development, evaluation, and remuneration to releasing them, but that their role is for the company strategy.

### Importance of the human resources department

Human resource is the most dynamic, most creative, and most valuable factor among all productivity factors. It is the "first resource" for a group to grow, and another resource mix cannot function without human resources. (Xie, 2015) Korděnko (2010) points out the importance of the human resources department. Who else in the company should be able to answer basic questions such as where and how to recruit quality employees, how to avoid growing turnover, and how to retain key employees, etc. How organizations engage in crisis management practices had not yet been addressed in any human resource development (HRD) journal, despite the seemingly prominent role that learning and change would play in developing organizational readiness for crisis events. (Hutchings, 2008) Business recovery cannot occur without employees. HR plays a strategic role in promoting trustful and prepared leadership throughout the organization to help reassure employees of their safety. (Lockwood, 2005) Several studies have recognized the importance of HRD in firms (Alagaraja et al., 2014; Hurt et al., 2014; Garavan and Carbery, 2012) These studies have highlighted the dependency of firms either big or small on the importance of skills and capabilities of the workforce to gain success and growth.

Never before has crisis management been more important. As recent events have shown, the business community is vulnerable to disruptions, and crisis events continue to pose a costly threat to organizations. Other serious events, such as financial failure from poor business management, cybercrime, labor shortage, fluctuation, Loss of proprietary and confidential information, fraud, Loss of material and supplies, Loss of key executives and personnel, and corruption also lead to substantial damage and Loss. (Mitroff, 2005; Lockwood, 2005) Despite a decade that has witnessed terrorist attacks, natural disasters, and ethics violations, fewer than 60% of employees reported that their organization was not well prepared to respond to a crisis (Fegley and Victor, 2005). Out of 137 large corporations, Miller (2002) studied, 47% had no plan for any type of

disaster. Similarly, 40% of human resource (HR) specialists surveyed by the Society for Human Resource Management confirmed that their organizations did not have a crisis and disaster plans (Cohen, 2002). The company must be prepared for these situations in the face of increasing threats.

Concerning the impact of the different crises on the HR function, Roche et al. (2011) published different possibilities.

HR is a key strategic function in organizations where human resources are viewed as assets rather than just a minimized cost. Almost every company has a life cycle, and only a fraction of companies has been on top for a long time. As already was mentioned above, today's enterprise faces a large number of factors that may jeopardize its stability. Most often, these are macroeconomic factors. Once a company goes into crisis, there is a moment of crucial decisions as to how the crisis will evolve. The HR department is typically the first department to quickly save money in times of corporate crisis. Suspension of various employee benefits, contributions, cancellation of corporate events, job restructuring, and, unfortunately, often a reduction in the number of employees may be a fast way to reduce costs. However, this decision may not always be right, as this may entail, for example, a hard-to-replace loss of key employees with an impact on the company's competitiveness. One is human capital can be "one of the principal determining factors in turning the downturn into long-term organizational sustainability and success." (McDonnell, 2011) At this point, the HR department can and should play a key role in managing any change in the organization. Human Resource Management can offer analytical assistance and advice, alert people-related issues, as well as anticipate and resolve people-related issues before they become serious. He has a unique chance to use his knowledge not only about the essential qualities of employees but also about tools and measures to prevent the company from losing these key employees. These employees can help companies cope with the economic, financial, manufacturing, organizational, and other challenges of the present and coming times while preparing it for a period of growth.

The evolution of society has brought new systems and technologies that create new risks. (Ludovico, M. T., 2019) A large-scale survey of HRM practices in over 200 MNEs in Australia (Boyle and McDonnell, 2013; McDonnell et al., 2011), conducted post - The Great Financial Crisis (GFC), asked HR managers to indicate what changes were made in response to the GFC. The three most cited changes directly as a result of the GFC were reduced international travel (70 percent), reduced recruitment (60 percent), and reduced expenditure on training and development (51 percent). Site closures, offshoring, and outsourcing activities were far less common (less than 20 percent indicated these). In Ireland, Roche et al. (2011) found a key awareness amongst businesses that are focusing solely on cost reduction could be a critical weakness. Instead, the suggestion is made that cost minimization needs to be combined with strategies to promote innovation and continue product and service quality. It was unsurprising to see that communications and information disclosure was regarded as the most effective HR practice in assisting organizations to manage the recession. However, the evidence on actual employee engagement or involvement, in either direct or indirect means, was lacking.

When the crisis comes, the most common layoffs may not occur automatically. Of course, it depends on the type of crisis. The economic downturn or lack of demand is ideal for addressing by changing the business model, product innovation, processes, or technology investments. The redundancies should, therefore, only come after all other options have been exhausted. Due to possible layoffs, people should be analyzed inside the organization. Among the most frequently cited rationales for outsourcing is cost reduction. While maintaining identical or improved services, the assumption is that current in-house expenses exceed the expected expenditure of purchasing the services externally. (Edvardsson, 2015; Hosie and Pforr, 2016) Therefore, strategic parts of HRM should remain under company control, while administrative and transactional functions are more likely to be successfully outsourced. (Shen, 2005) Human resource issues, such as employee assistance programs and succession planning, are now central features of business contingency plans. (Lockwood, 2005) As mentioned above, it is now essential for the organization to be prepared for emergencies. This means having emergency plans, crisis managers as part of top management, and regular training for employees. All this regardless of the type of crisis.

## 2. Methodology

The descriptive and analytical research proposal was chosen. We asked Human resources managers directly about their work in crises, using online surveys and interviews to determine how human resources management was changed after crises. A questionnaire survey and an online survey was considered the most significant potential for a decent response from time-consuming working personnel managers.

The main objective was to determine the importance of the Human resources management department in the company and the impact of the crisis on the personnel management of medium to large companies in the Czech Republic. Based on a survey, four research questions were set and analyzed. Statistical dependence

of specific answers with respect to the size of the company was verified. The survey was conducted in January 2020. Albertina Online provided the contact details of the companies for the questionnaire survey. A structured questionnaire was sent to 914 organizations. The criteria for the selection of organizations were the manufacturing industry and the size of the organization, according to the Chamber of Commerce of the Czech Republic. The questionnaire survey was anonymous. We used the electronic portal for the questionnaire survey, and from 914 companies sent out, 225 returned, which is 24.6%. The representative sample of companies was, therefore, 225.

### 3. Results

The first group of questions of the questionnaire concerned the necessary information about the companies. Another group of questions concerned the causes of the crisis, the preparedness of companies for the crisis. The final part has already been devoted to the impact of the crisis on personnel management, measures taken, and whether this choice was good or bad for the company and how the HRM strategy changed after undergoing a managed change in the company.

Of the 225 companies, 156 organizations (69.9%) had a crisis in the past. The leading cause of the crisis was the economic and political development of the market. A fascinating finding was that 66% of companies had a prepared crisis scenario, 74% dealt with the crisis by an internal team. A consistent finding is that in 78% of companies, internal crisis communication (communication with employees) was sufficient. These findings are astonishing and positive. As already mentioned in the literature search, if they get into the crisis, most companies start looking for the first savings in the area of employees. Our research has confirmed this assumption. One hundred one companies (64%) out of 156 respondents stated that HRM was the central area of savings at the time of crisis management.

Our research has also focused on finding out how much importance the company attaches to human resources and human factor. The research questions were formed like:

- A – Whether HRM is a part of TOP management,
- B – Whether human resources are as important as know-how,
- C – Whether business leaders are aware of key employees,
- D – Whether the crisis management is part of HRM.

The occurrence of individual answers from the survey was evaluated according to a four-scaled evaluation of all four research questions A.x, B.x, C.x and D.x, where  $x = 1$  determines small-sized enterprises,  $x = 2$  determines medium-sized enterprises and  $x = 3$  determines large-sized enterprises. The meaning of the individual grades of the rating scale is defined as follows:

- 1 – Strongly Disagree,
- 2 – Disagree,
- 3 – Agree,
- 4 – Strongly Agree.

Measures of location and variability were found by the median and the discrete ordinal variance (1) due to properties of ordinal variables. Then the discrete ordinal variance (dorvar) was converted to the standardized form (nor.dorvar) of the discrete ordinal variance (2). Basic statistical characteristics of collected data are briefly presented in the table, see Tab 1.

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$$\text{dorvar} = 2 \sum_{i=1}^k P_i (1 - P_i) \quad (1)$$

$$\text{nor.dorvar} = \frac{2 \cdot \text{dorvar}}{(k-1)}; \text{nor.dorvar} \in \langle 0;1 \rangle \quad (2)$$

Table 1: Measures of location and variability of the cases

Cases	A.1	A.2	A.3	B.1	B.2	B.3	C.1	C.2	C.3	D.1	D.2	D.3
NOR	0,72	0,59	0,55	0,41	0,45	0,48	0,19	0,38	0,34	0,58	0,68	0,68
Median	3	3	4	4	4	4	4	4	4	3	3	3

The same data set can also be represented as boxplots shown in figure 1. This figure was used for analysis of location and variability measures of all four research questions. The table 1 complements this graphical information with descriptive statistics.

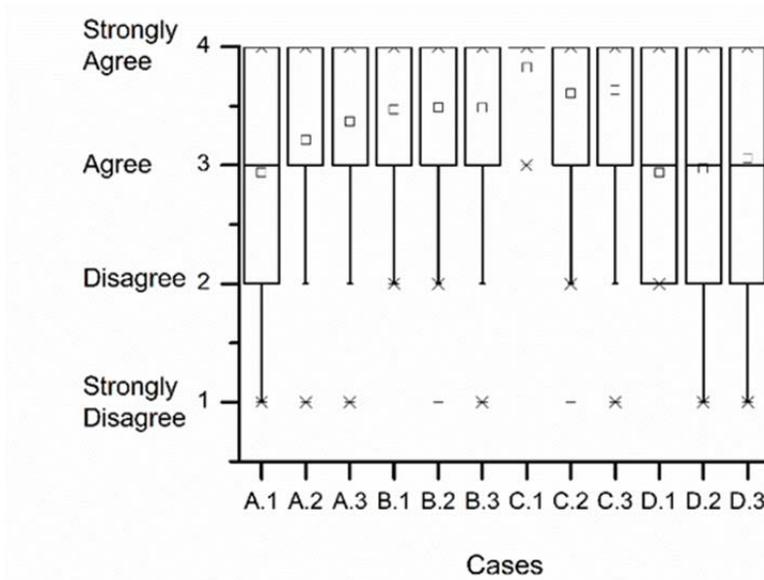


Figure 1: Boxplots of answers on identified research questions

The first research question was about HRM as a part of TOP management. Based on the analysis of Tab 1, it can be concluded that HRM is a part of TOP management with the increasing size of the company. The answer Strongly Agree was stated by 56 % of respondents in the category of large-sized enterprises.

The second research question examined whether human resources are as important as the know-how. The results show that human resources are essential for all monitored categories. However, the collected data cannot be clearly determined whether there are significant differences among categories. In the small-sized enterprises' category, the variance is smaller, but not significant. This is undoubtedly due to the small number of employees in the company. A positive opinion, ie, Agree or Strongly Agree response, was above 90 % for all the observed company sizes.

The third research question was about business leaders and if they are aware of key employees in their companies. Here it can be concluded that representatives of small-sized enterprises are aware of their key employees. This result is logical and expected due to fewer employees. Nearly 82 % of respondents in the category of small-sized enterprises marked the answer Strongly Agree.

The last research question examined whether crisis management as a part of HRM. Here as with the second research question, significant statistical differences in the data found cannot be clearly identified. The answer Agree was stated by 35 % of respondents in the category of small-sized enterprises, 38 % of respondents marked the same answer in the category of medium-sized enterprises. The answer Strongly Agree was used by 40 % of respondents of large-sized enterprises.

Now we will look at the core of the whole research problem. What are the specific personnel savings applied in companies? If a company goes into crisis, there is an economic downturn. The economic downturn requires a reduction in all costs, including wage costs. In practice, there is a need to prepare for the redundancies and wage cuts of those who remain. Specific austerity personnel measures can be seen in Tab. 2. Again, we divide these measures according to the size of the company.

Table 2: Specific personnel savings of the company

Company size (number of employees)	Layoffs of	Reduced working time	Free Fridays	Reduction of wages	Reduction of production capacity	ofCancellation of variable wage components
Up to 250	5	4	3	3	7	5
251-500	43	22	13	14	32	17
501+	37	19	15	14	34	15
Total	85	45	31	31	73	37

As can be seen in Tab. 2, most companies in the event of a crisis began to lay off employees (85 companies) and reduced production (73 companies). These two measures are closely linked, as limited production is less labor-intensive. Other measures that companies have practiced include, in particular, reduced working hours (45 companies), the abolition of variable wage components (37 companies) as well as free fridges and wage reductions (31 companies). Unfortunately, research has confirmed that the crisis in the company is still being solved by redundancy.

#### **4. Discussions**

The limit of the research was the fact that the research concerned only Czech companies. The most significant attention was focused on the effects of the company's crisis on human resource management. From all other areas (production, marketing, logistics, sales), it was abstracted. The most common measure is the dismissal of employees because of an immediate solution to the problem, but this does not solve companies' long-term situation. (the research confirms) Dismissal is, therefore, only a short-term or even no solution to the problems the company is going through. Many companies use a simple method during the crisis, namely LIFO, last in - first out, or the first to lay off those in the company for the shortest time. Others come from temporary agents, agency workers, and part-time workers. It is, therefore, necessary to have a well-prepared emergency plan for the company. If we are talking mainly about staff, it is necessary to carry out a personnel audit, ideally, before the onset of the crisis. In preparation, it is necessary to identify those employees you want to retain. They represent the basis of the company's staff in worse times. It is good to work with them actively, promote their loyalty to the company, and feel a sense of belonging. Offer them non-financial benefits and the possibility of development or progress. Is it a good idea to prepare a compensation plan, i.e., what do we offer to our employees to reduce wages and benefits?

Further, it is necessary to prepare a plan of communication with them and coping with their resistance. In order for the crisis to be managed, it is crucial how well and efficiently the company informs its employees about the strategic issues and steps taken in connection with the recovery. The goal of effective communication is the need to correctly explain the planned measures to the people in the company. Work teams can easily find out intuitively whether decisions are based on knowledge and experience or panic and chaotic steps. At the same time, it is necessary to avoid closing your eyes to reality. The crisis means limiting recruitment, while personnel activities need to be directed to the outplacement of specially qualified employees. Redundancies are coming to many businesses that do not have well-established routine personnel processes - measuring performance or mapping employees' competencies and do not actively work with these models. Therefore, the proposal is that the companies have well set up these personnel processes. Then it is easier to prepare for the crisis, and the measures may not be so massive. One of the more effective options for measures during the crisis is, in my opinion, a short-term limitation of variable wage components and other benefits. Thus, an enterprise does not have to lose its attractiveness or level because employees do not restrict their basic wage income. Employees will confirm that the company acts reasonably with them and does not hide anything from them. On the contrary, it is also crucial, in this case, communication management with their employees, to understand this situation.

#### **5. Conclusion**

The paper dealt with human resources management in Czech companies during the crisis. It is well known that the human factor or capital is still underestimated. We researched 914 medium to large companies. We examined the position of the human resources department within the company; four research questions were tested depending on the size of the company. Our object of interest was whether the business underwent a crisis, which caused the crisis. Two-thirds of the companies surveyed have experienced a crisis in the past. The leading cause of the crisis was the external environment, i.e., the market's economic and political development. Everything was examined concerning the human factor. It is very positive that more than half of the companies had a prepared crisis scenario, and they handled the crisis with an internal crisis team. Crisis communication is also becoming more effective in Czech companies. The last area of interest was focused on specific personnel measures. The paper provided statistics of the austerity measures applied in the area of human resources management at a time when the company is in crisis. In conclusion, measures are proposed and recommended that could make the whole process more efficient.

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