Organizations ‘Recovered To Good Health’: The ‘Path To The Goal’
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ABSTRACT

The backdrop of economic recovery now seems to be a reality. There are comparisons drawn between the Great Depression (1930s) and the Great Recession (2008 onward). Organizational excellence, involving a paradigm shift, is the need of the hour. Research in the captioned arena is a pointer to the mammoth task(s) ahead in terms of rehabilitation. This Great Recession has cast ugly pressures in various organizational areas – be it legal, marketing and consumer behavior, human resources, and industrial relations. Many stakeholders are awakened by the harsh realities and there is a crying need to set up a statutory body to review the function of organizations.

‘Try not to become a man of success, but rather a man of value’ (Albert Einstein in Brunn and Getzen, 1966; p.526)

Keywords: Great Recession; Corrective Policies; Economic Contraction; Economic Downturn; Performance Indicators

INTRODUCTION

Great leaders know that how they fight a war often decides whether they will be able to establish a peaceful nation. Yet, as the Chief Executive Officers (CEOs) continue to combat the myriad of challenges thrown up by the Great Recession\(^1\) of 2007, they are increasingly unsure about what strategic approaches to deploy. Organizational excellence hinges around the effectiveness of its human beings.

Theories of Crises and Growth

Crises and other negative shocks may, in theory, impose only a temporary restraint on output, but lead to strong future growth that offsets the initial decline. First, crises may facilitate beneficial political or economic reforms. Corrective policies could spur an economic recovery above the original trend line if they reduce inefficiencies. Second, if one were to follow the ideas of Schumpeter (1942), then what would follow is creative destruction. Consequent recessions may cleanse the economy of inefficient firms which, in turn, would lead to higher productivity and output growth (Caballero and Hammour, 1994). If either of these theories is valid, crises or contractions may benefit long-term growth and we should be able to find evidence of strong recoveries following downturns (Cerra and Saxena, 2005).

Wars, Crises, and Regime Change, Oh My!

The likely suspects for economic contractions are civil wars, financial crises, political instability as measured by regime change, and negative terms-of-trade shocks (regress growth of dummy variables for wars, crises, and regime change). We also look at the impact of trade liberalization on subsequent growth. Financial and political instability have strong associations with recessions (Cerra and Saxena, 2005).

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\(^1\) Great Recession: The global financial crisis of 2007 has cast its long shadow on the economic fortunes of many countries, resulting in what has often been called the ‘Great Recession’. Rampell (2009) traces the evolution of the term and points out with some irony that it has also been used to describe all post-war recessions. Reinhart and Rogoff (2009) refers to the crisis as the ‘Second Great Contraction.’
Unfortunately, little research has been done on strategies that can help companies survive a recession, get ahead during a slow-growth recovery, and be ready to win when good times return. Folksy wisdom abounds in the case of some organizations. Many times one has read that Proctor & Gamble, Chevy, and Camel flourished during the Great Depression(s), possibly because they advertised heavily; but empirical studies are few.

RESEARCH

A year-long study carried out by Harvard Business School shows that 9% of companies come out of a recession stronger than ever. Following is how they lay the groundwork for success.

Idea in Brief

- What strategies can companies use to survive a recession so that they’ll thrive when it ends?
- Companies that only cut costs heavily during a downturn don’t flourish after it ends.
- Cutting costs while making investments isn’t easy.

Our (Their) findings are stark and startling. Seventeen percent of the companies in our (their) study did not survive the recession: They went bankrupt, were acquired, or became private. The survivors were painfully slow to recover from the battering. About 80% of them had not yet regained their prerecession growth rates for sales and profits three years after a recession; in fact, 40% of them hadn’t even returned to their absolute prerecession sales and profit levels by the end of that period. Only a small number of companies - approximately 9% of our (their) sample-flourished after the slowdown, doing better on key financial parameters than they had before and outperforming rivals in the industry by at least 10% in terms of sales and profit growth.

Four Responses to Slowdown

Executives’ cognitive orientation during a crisis decides the type of strategies during a recession. Tory Higgins, Columbia University psychologist, reiterates that human beings are hedonistic - we avoid pain and seek pleasure but aren’t sure how to achieve that state. There are two basic modes of self-regulation. Some people are driven most by goals, such as achievement, advancement, and growth. These promotion-focused individuals are motivated by ideals and aspirations that provide pleasure, if realized, and disappointment, if not. Other people are prevention-focused - concerned mainly with safety, security, and responsibility. They strive to avoid bad outcomes, experiencing relief if they succeed and pain if they fail. Situations have a potent influence on cognitive orientation. A recession, for example, can trigger a response that overrides a person’s usual orientation.

One can classify companies and their approaches to managing during a recession into four types:

1. **Prevention-focused companies** primarily make defensive moves and are more concerned with their rivals with avoiding loses and minimizing downside risks.
2. **Promotion-focused companies** invest more in offensive moves that provide upside benefits than their peers do.
3. **Pragmatic companies** combine defensive and offensive moves.
4. **Progressive companies** deploy the optimal combination of defense and offence (Gulati et al., 2010).

It is important to reflect on the basic objectives of an organization and avoid playing ‘foul’ whilst relating with the various stakeholders.

UNTO LEGAL PROFESSION

Although historians will surely devote much ink - or bytes - to the financial crisis, I believe that this time would be known as an infection point in world history because of huge revolutions underway in the world - changes that make this an electrifying time to be in the legal profession. (Martha L. Minow, Dean of Harvard Law School, January 20102)

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2 **Q&A: Points of Inflection: A Conversation with A New Dean**, HARVARD LAW BULLETIN, Winter 2010, at 14, 14 (Q&A with Dean Martha L. Minow).
Perhaps with historical hindsight, 2008-2009 will be remembered not for the Great Recession\(^3\) that first rocked the U.S. residential mortgage credit market, then froze American and global financial markets and eventually led to a worldwide recession, but as an inflection point for world history, the U.S. economy, and the legal profession. However, in the short run, at least, the impact of the economic meltdown on the legal profession has been quite devastating - unprecedented layoffs\(^4\), salary decreases\(^5\), hiring freezes resulting in an extraordinary number of unemployed law school graduates nationwide\(^6\), and even deaths\(^7\).

The long-term consequences of the economic downturn are less certain. While some believe that the Great Recession will have permanent adverse effects on the legal profession\(^8\) it is important to bear in mind that points of significant distress are at the same time moments of great opportunity\(^9\); and the legal profession, with a track record of adapting to changing practice realities while successfully maintaining its elite professional, financial, and cultural status atop U.S. society\(^10\), may end up stronger than ever.

Unlike the savings and loan crisis of the 1980s and the accounting meltdowns of the 1990s in which large firm attorneys were accused of playing significant roles in failing to prevent the financial calamities and even in
helping to bring them about\textsuperscript{11}, it appears that lawyers were not principal villains in the economic downturn of 2008-2009\textsuperscript{12} (Wald, 2010).

**MARKETERS AND CONSUMER BEHAVIOR**

Marketers must respond to radical changes in consumers’ priorities, but also ready themselves for recovery. What promises to be the longest and deepest global recession since the 1930s took many marketers by surprise. What appeared first as a crisis affecting the U.S. home mortgage market soon morphed into a global financial meltdown and the evaporation of consumer credit. It is important to understand how customers are reacting to the new reality, how their attitudes and behaviors are changing, how easy it is for them to switch suppliers or stop buying your products and services, and whether the shifts that are evident today are going to continue once the economic recovery kicks in.

**Hope and Change**

Marketers must not be mum; they must balance empathy for the financially distressed consumer with a resilient, perhaps even defiant, spirit of hope and optimism. The appropriate blend varies from one product category to another. In the face of doom and gloom, we all need to be lifted.

**Change or Die**

A recession is no time to hunker down; it is time to question the strategic rationale for non-core assets and the fundamental assumptions of your (the) business model.

**Planning for Recovery**

Conventional wisdom suggests that consumers return eagerly to their old attitudes and behaviors once a recession abates (Quelch and Jocz, 2009). The fear of recession drives managers to cut costs, reduce sales expectations, and retrench across the board, particularly when it comes to developing new products and services. Customer service should be maintained as high priority for the sustainability of the company during tough economic times. Most people surveyed indicate that we are already in a recession. It is observed that when prices start to increase, the living standards start to fall, unemployment rises, and businesses stop expanding. That means we need a strategy to attack recession, not just to respond to it (Srivastava, 2010, pp. 204-6).

The challenge for executives is to prepare for the post-recession - deliver the superior value which will be demanded by the post-recession customers. Opinions are divided about whether the “green shoots of recovery” from economic downturn and recession are already apparent or whether this view is unduly optimistic and heralds a “false dawn”. What is undeniable is that the economic downturn and recession will come to an end, even though there is a risk of a “double-dip recession” first (Piercy et al., 2010). Projections indicate that the world’s economy will double in the first 20 years of the 21\textsuperscript{st} century, suggesting that economic growth has only been interrupted by the downturn. Forecaster Paul Ormerod notes that, in spite of the sharp fall in manufactured output in 2008-2009, history shows that few recessions last longer than two years and most recoveries are strong once they start. An optimistic prediction is the deeper the slump, the bigger the bounce. Recovery will not come at the same time for every company and it will bring a radically different reality for many. Consumer confidence and purchasing will rebuild, business investment will grow again, and supplier sales will increase in many sectors. Nonetheless, the assumption


\textsuperscript{12} See Posting of Andrew Perlman to Legal Ethics Forum Blog, http://legalethicsforum.typepad.com/blog/2008/10/the-biggest-leg.html (October 5, 2008, 10:05 EDT) (opining that the biggest legal ethics story of 2008 was that nobody was blaming unethical attorneys for the economic crisis), last accessed on February 7, 2011. (Choice in the current economic crisis: “Huh?” “What does legal ethics have to do with it?”).
that conditions will go back to “normal” and things will be as they were before the downturn may be fatally flawed. Many industries have been irrevocably changed by the economic downturn. McKinsey’s research underlines the overall picture in a radically changed landscape (Beinhocker et al., 2009).

Perhaps the most important lesson from previous downturns and recessions is that, even though recovery is coming, for most sellers, things will never be quite the same again. Indeed, one view is that the downturn will be remembered as the time when many of the business models built in the industrial era finally collapsed – business has to change because markets and people have changed. Appositely, research by consultant Stanton Marris underlines the importance of “strategy evolution” - or strategic repositioning - that adapts to the recession-led change in markets but also changes in the organization itself (Stern, 2009).

Similarly, Jack Welch observes that simply trying to “ride out the storm” is unlikely to work; the goal should be to get in step with new “dynamic” times. His logic is that customers, competitors, and suppliers will have different expectations and behaviors, so business strategies must anticipate and adapt to the new challenges and opportunities (Welch and Welch, 2009). Similarly, Jeff Immelt, CEO of GE, notes that just “holding on” until things get back to normal is an error for most companies; what we are seeing now is the new normal, the new world order (Charan, 2009).

THE HUMAN CAPITAL

Role of Chief Human Resources Officer (CHRO)

As the leader of a function that affects the people and performance across the business, the CHRO’s response to this recession will contribute to a company’s long-term success as well as its short-term survival. CHROs can help their companies attain both goals by quickly cutting unnecessary costs from the employee base and the HR function and then addressing four major issues - the proper alignment of people and HR strategies to business needs, the overall talent portrait of the company and enhanced performance management, the vitalization of the workforce, and sustainable leadership development.

CHROs need to reshape their HR strategies and operating models to align with the new economic environment and the revised priorities of their companies.

Economic Environment Survey (HR Aspects)

The state of HR is perceived as enviable in this challenging economic environment. According to the Survey 2010 carried out by King’s College-London at the University of London, Senior HR professionals have faced another year of turmoil as the credit crunch became a full-blown recession. Over 350 professionals responded in November 2009 to a survey exploring the state of human resources. The survey confirms the significant effect of the recession with 83% of respondents reporting a negative impact on their businesses.

Many HR professionals reported that their roles and responsibilities are broadening - 93% reported no cessation of HR-related activities in 2009, while 28% reported the commencement of a new HR activity.

Economic conditions continue to create extremely tough and challenging environments for organizations in which to manage their workforces. From a long and deep recession, much uncertainty remains about the shape and speed of recovery. The impact of restructured business operations on employees has already been significant. This is set to continue for many more months. For others, new challenges will also arise as the effects of recession overlap with renewed focus on growth. This report outlines the key workforce issues arising from recession and anticipated recovery. It also reviews the effects on policies, practices, and the operation of human resource departments.

The survey allows us (say, they who conducted the survey) to distil valuable insights from senior HR professionals about what is happening to their organization’s workforce and to their HR function (Bircham, 2010).
This report provides challenging reading for the HR profession...the (that) survey shows that most organizations are still mired in recession and the HR problems are increasing with greater stress levels and more employment-relations problems. The report provides clues about how to cope with recession, but the HR route out of it is not yet clearly marked. Many senior HR professionals are pinning their hopes on employee engagement as a means of emerging from the recession. There is a strong risk that they will be disappointed if the labor market improves.

The Recessionary Impact on Employers and Industry Sectors

The public and not-for-profit sector, including health and education, have fared better, although the future impact for these sectors remains far from certain.

Employment Levels, Workforce Reductions and Talent Shortages

Fifty-four percent had a smaller workforce than at the same time in the previous year.

Respondents (to that survey) reported a significant increase in the use of flexible work arrangements – 38% say there has been an increase in their use and 37% say they expect this to increase in the next 12 months.

Effects on Workforce and HR Practices

It is being observed that members of the workforce have remained more static – rather than being positively aggressive - in the face of a prolonged recession.

Surprisingly, numbers of respondents even felt that their redundancy exercises had enhanced their reputation, customer service, and/or brand value.

Engagement

Engagement is a continuation of the search for HR’s “holy grail”. It taps into employers’ attempts to create a highly motivated and committed workforce - one that works for the benefit of the whole organization.

HR professionals identified employee engagement as their number one priority in the surveys. We (they) have also seen the concept embraced by many CEOs and, following the MacLeod Review, the UK government has rolled out its plan specifically to help employers understand and use the idea to drive performance.

Most HR effort to drive engagement is focused on both leadership and line management – in the way managers and leaders relate to staff.

Link between HR Activities and Engagement Improvements

We can see that one of the potentially most important effects on engagement is better job design. This is interesting as it is probably the least focused by HR professionals.

Is the HR Role Changing?

Ninety-three percent reported that there had been no cessation of in-house activities. On the contrary, 28% advised that HR had actually commenced a new practice or procedure, or had in-sourced (what they routinely had out-sourced earlier) during the year.

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13 Report by Professor David Guest, King’s College London.
Performance Indicators

Higher organizational performance was associated with lower levels of environmental uncertainty and higher increases in reported employee engagement. There were also links found between high organizational performance and growth in the size of pay increases and bonuses.

HRM FUNCTION

The sharp rise in world unemployment rates resulting from the economic downturn has diminished the urgency of the global war for talent as corporate managers undertake mass layoffs and workers focus on job security. It is heartening that the long-term structural factors - globalization, demographic shifts, technological advances, shortages of skilled professionals, and entry of “Generation Y” persons (millennials) into the work force, which have served as the ‘drivers’ for competition in human capital - have remained unabated during the recession. Given this in the backdrop, action-oriented initiatives - like change management, organizational design (or redesign), talent hunt, improvement in operations, and HR function revitalization - are called for.

HR Management in a Global Recession

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

Large format recession has been a growing international trend in the corporate sector over the last decade, with several companies joining the bandwagon. The solution lies in inventing need-based HRM strategies and innovations, providing the corporate sector with a wide selection of employees, employers, customers, suppliers, etc. in all ranges.

HRM Innovations in Recession

“The recession is about creative Human Resources Management. The HRM function is required to bring new ideas, to change the HRM processes, and to develop or change the procedures, and this effort has to be cheap or it has to cut the costs of the organization.” Can there be a paradigm shift?

HRM innovation during the recession has to focus on the following core areas:

1. optimizing the manpower strength
2. reducing the number of employees in the organization
3. taking strategic initiatives to increase the productivity and efficiency of the entire organization
4. working on compensation benefits
5. cancellation of several benefit schemes
6. redesigning training and development programs
7. identifying the real key employees and to interact with them in the organization

There is need to identify the real top potentials (emphasis added ‘performers – contributors’ and ‘aggressive initiatives’) and to strengthen their development (Sharma et al., 2010).

SOCIAL PARTNERING INDUSTRIAL RELATIONS

The current global and financial crisis can be considered a touchstone for governments and social partners throughout the world (Hyman, 2010).
The Crisis of 2007-2009 and its Industrial Relations Implications

The financial crisis evolved in the summer of 2007 and exploded into a global economic crisis a year later. In the paper *The Financial and Economic crisis: A Decent Work Response*, the ILO (2009a: 1) wrote, “the global economy is experiencing the worst crisis since the Great Depression. What began as a financial crisis when the housing market in the United States turned sour has now expanded into a global meltdown, wiping away trillions of dollars of financial wealth, putting the real economy at great risk hardship. Per available figures, the overall OECD unemployment rate reached 8.6% in July 2009, up from 5.6% in July 2007 and 6% in July 2008; hence, “a social crisis is looming large” (ILO, 2009a: vii).

Wade (2008: 7) noted, past cyclic economic crises have often inspired radical proposals for change of policy regime, but recovery has always brought about a return to ‘business as usual’. On this occasion, the very severity of the crisis compelled radical initiatives as governments were forced to bail out failing banks, insulate toxic assets, slash interest rates, and boost consumer demand. Keynesian demand management seemed back in fashion after decades in which the philosophy of free markets held sway, yet it is not clear that this heralds a long-term policy shift. Watt (2008: 1) commented that many analysts “have pointed the finger at single actors – central banks and their ‘easy money’ policies, greedy Wall Street titans, sleepy regulators – implying that once such incompetents have been removed, we can return to business as usual”. How soon we can get to it is a million dollar question!

Conflict and Radicalism

Noi la crisi non la paghiamo! – we are not paying for this crisis! This slogan, which first appeared in Italy in the autumn of 2008, began to figure prominently in translation at demonstrations across Europe in the spring of 2009. It expressed a high degree of public anger - the ‘fat cats’ whose greed and recklessness caused the crisis were still protected, being bailed out with huge sums of public money, while ordinary workers were suffering job losses, pay cuts and loss of pension rights, and would be expected to pay the long-term bill to redress public finances. This is an ‘awakening’ amongst the workers.

ACCREDITATION COUNCIL

We do have standards for quality, environment, health, safety, community management and there are certifying bodies for them. The need of the hour is for the governments of the day to have a vibrant body, like the Accreditation Council, with a statutory status so that all business organizations are definitely certified by such council on a regular/continual basis. This shall guard the ‘economic health’ and show alerts for irregularity the moment they are spotted on the corporate radar. This shall also ensure stakeholder delight apart from ensuring the economic health of the nations of the world.

CONCLUSION

Summing up, it is affirmed, based on reality, that the economic downturn had caught many organizations off guard. Business leaders caught in this whirlpool have now learned a bitter lesson and this should lead to shaping up their functional competence and being ethical in their dealings. Now the challenges are how to build, re-build, and sustain effective organizations that are fit to face the challenges of the global complex landscape. We have to reflect on the way we do our business. It was in 2009 when a leading US investment banker reported that he was ‘doing God’s work’ (Schas, 2009); he was met with chorus incredulity and derision. ‘The Global Economic crisis requires a global ethic’, said Dr. Hans Kűng when he spoke about ethical aspects in a symposium. He stated, “A couple of years ago, when I would speak on ethical aspects in economics, I often felt like a voice calling in the desert. With the present global economic crisis, however, it has become much easier for me to address this issue. More and more people realize that this crisis also has to do with common ethical values and standards” (Kűng, 2009, p.1). It is therefore an accepted assertion that for prevention of the failure of markets and institutions, and for

15 Accreditation Council: a body distinctly (or statutorily) involved in the act of granting credit or recognition to body corporate/business organizations for maintaining appropriate standards in quality, environment, health, safety, community management and other core areas in economics and related areas, which is mandatorily required by the Law of the Land.
establishment of morality in businesses, a potent ethical framework is called for which can be institutionalized by an Accreditation Council. It is also the time to celebrate the hard-won successes of countries around the globe and to embrace the lessons they have shown us.

AUTHOR INFORMATION

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