

# **Organizational Responses to Financial Crisis: An Exploratory Study of Various Strategies**

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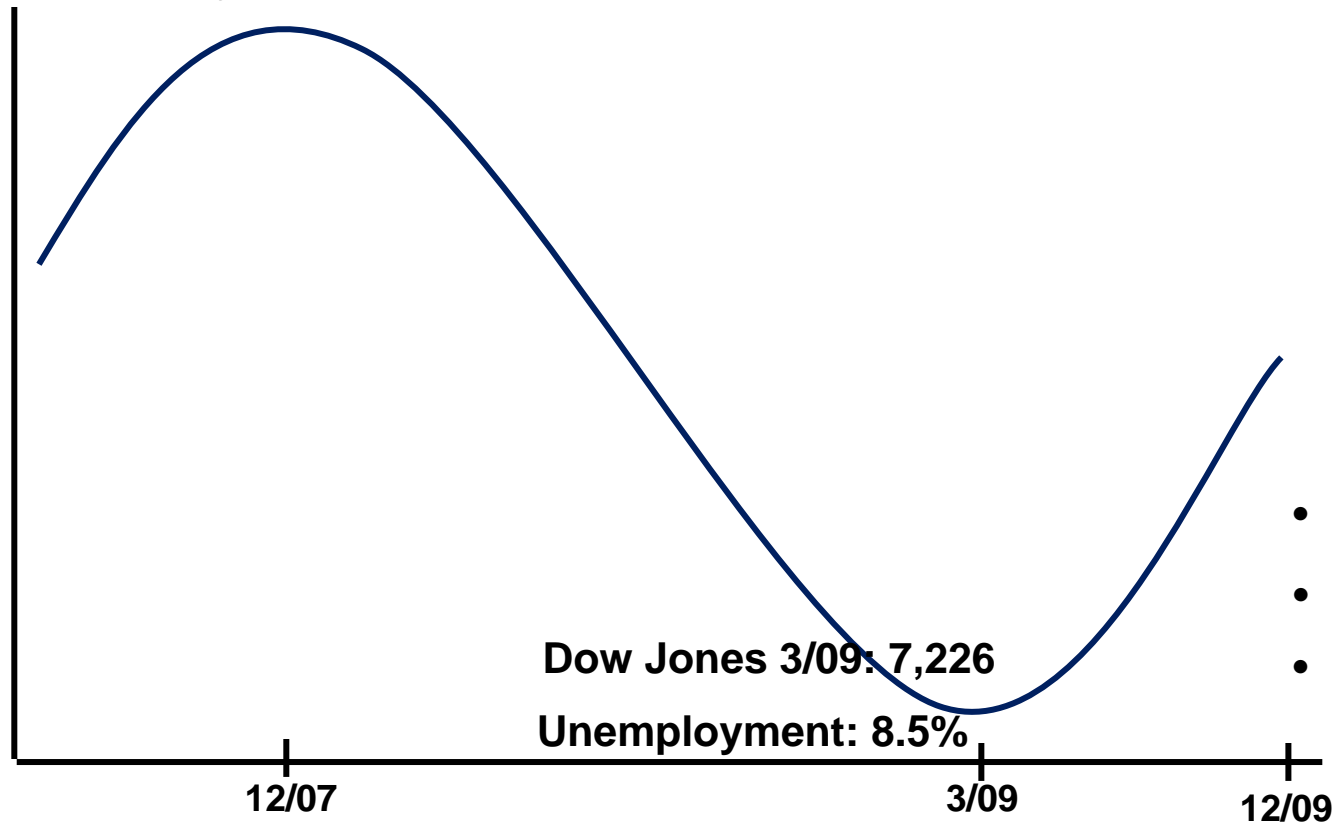
# Overview: Context & Research Question

- **During Recession, many organizations were forced to reduce their operating costs**
  - While maintaining engagement and performance levels
- **Common survival strategy: Reductions in human resource (HR) investments**
  - Layoffs, budget cuts, salary freezes, and bonus suspensions
- **Resource scarcity should deflate employee attitudes and diminish performance**
  - Social exchange (Blau, 1964; Coyle-Shapiro & Conway, 2004); Demand-Control model (Karasek, 1979); Organizational effectiveness literature (Pfeffer, 1998; Lawler, 2003)
- **But some organizations have exhibited resiliency**
  - Behavior that is characterized by consistent positive adaptation in the face of significant adversity or risk (Masten & Reed, 2002)
- **This exploratory study investigated two main questions:**
  1. **How did organizations respond to the Great Recession?**
  2. **Why have some organizations and workforces been more resilient than others?**

## ***Last Two Years: A Roller Coaster of Emotions***

**Dow Jones 12/07: 13,409**

**Unemployment: 4.9%**



**Dow Jones 4/10: 10,895**

**Unemployment: 9.7%**

- **8.4 million jobs lost**
- **53k mass layoff events**
- **“Jobless Recovery”**

Source: Bureau of Labor Statistics

# What pre vs. post recession trends do we see in our norms?

Analysis of 2009 vs. 2007 Sirota Normative Results

## Communication, Involvement, Efficiency

| Items that Improved 5+ Points                                       | 2009 | COT |
|---|------|-----|
| •Rate XYZ on having an effective decision making process            | 49   | +10 |
| •Rate XYZ on communicating to employees on matters that affect them | 60   | +8  |
| •Management takes action on employee ideas and opinions             | 61   | +8  |
| •We feel part of a team that works together                         | 75   | +7  |
| •Effective planning   | 60   | +5  |
| •Efficient work   | 61   | +5  |
| •Striving for excellence  | 79   | +5  |
| •People accept a variety of ideas, perspectives and working styles  | 73   | +5  |

## Service, Support, & Security

| Items that Decreased 5+ Points   | 2009 | COT |
|--|------|-----|
| • Rate XYZ on being knowledgeable about customer needs                   | 67   | -14 |
| • Rate XYZ on responding quickly to meet changing customer needs         | 61   | -13 |
| • Opportunity to learn and grow  | 72   | -9  |
| • Senior management gives employees a clear picture of the direction     | 66   | -8  |
| • Rate XYZ on keeping employees informed as to the state of the business | 76   | -7  |
| • My supervisor acts as a coach  | 65   | -6  |
| • Responsive to customer needs   | 83   | -5  |
| • Job security   | 66   | -5  |
| • Onboarding Effectiveness   | 57   | -5  |

## Five Primary Areas of Inquiry

### Workforce Changes

- **What cost reductions and workforce changes** did organizations implement in response to the recession?

### Response Strategy

- **What interventions were initiated** to sustain employee morale and maintain performance during the recession?

### Decision Making

- **How were these strategies determined** during the recession? Who was involved in decision making process?

### Organizational Culture

- **What type of culture exists** within organization?

### Response Effectiveness

- **How effective were response strategies** in terms of meeting employee needs, sustaining employee loyalty and commitment, and driving performance?

# Assessing Recession-Related Workforce Changes

- Because human capital expenses often represent 60 to 70% of operating expenses, many organizations made reductions in human resource (HR) investments to counter decreasing revenue during Great Recession
- Various studies (e.g., Kalimo, Taris, Schaufeli, 2003; Cheng & Chan, 2008) have shown that these reductions can increase employee stress and job insecurity while decreasing employee engagement, commitment, and productivity
- **Research Questions**
  - What types of reductions in HR investments were implemented?
  - What impact did these reductions have on employee commitment?
  - What compensatory strategies did organizations put in place to maintain engagement and productivity levels?

## Common Responses To Great Recession

Layoffs

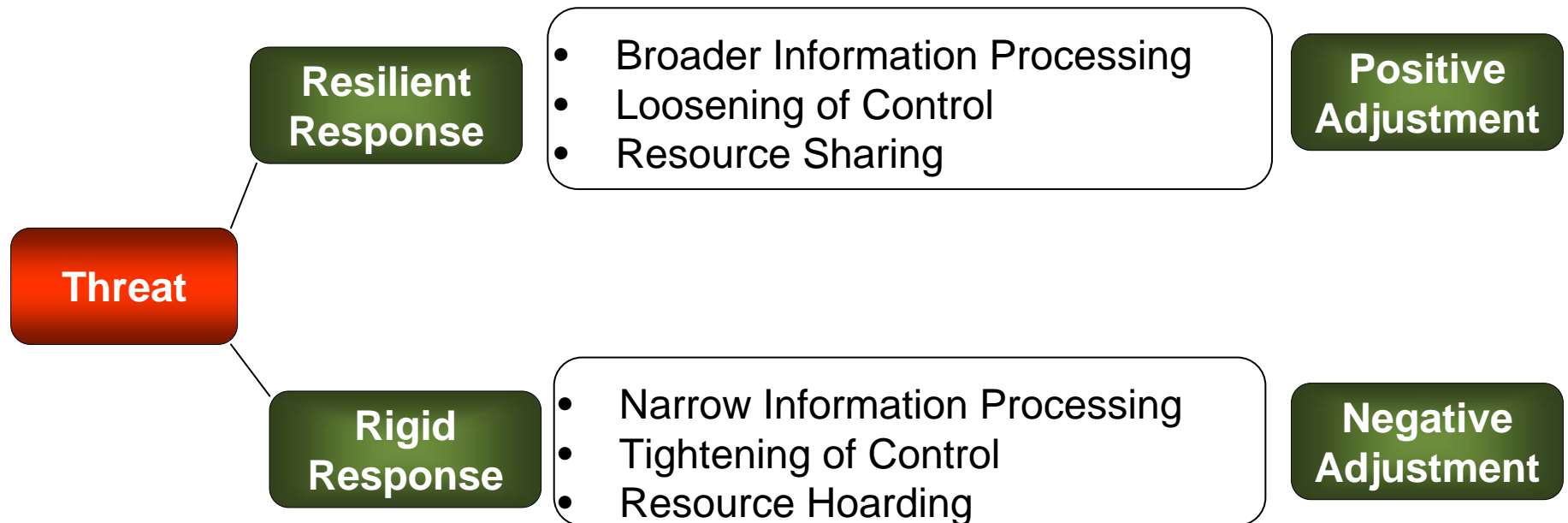
Reorgs

Pay  
Cuts

Budget  
Reductions

## Assessing Recession Response Strategies & Interventions

- Sutcliffe & Vogus's Resilient and Rigid Responses to Threat model (2003) presents adaptive and maladaptive responses to threat.



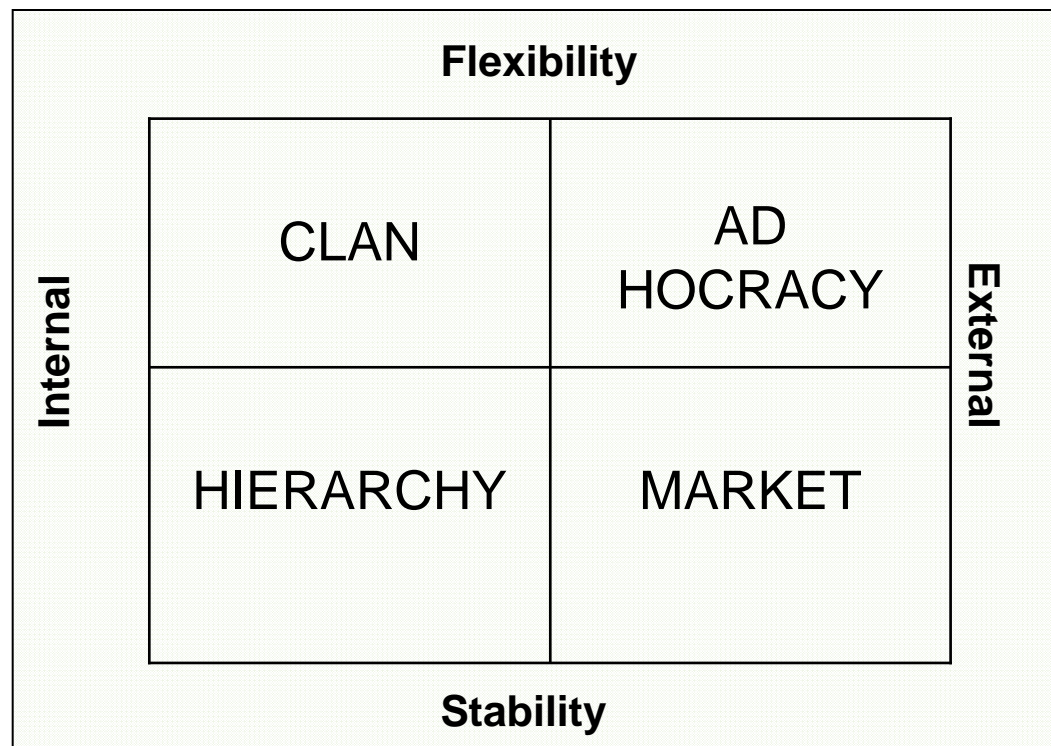
- To what extent did organizations implement resiliency-building strategies and interventions, and were they effective?

## Assessing Organizational Decision Making Approaches

- **Various bodies of literature suggest that shared decision-making may have been helpful during the Great Recession**
  - **Informational/Decision Making Theory:** Because diverse groups are more likely to possess a broader range of task-relevant knowledge, skills, and abilities that are distinct and non-redundant, they tend to be more effective at information processing and decision making (van Kippenberg, De Dreu, Homan, 2004; Moss-Kanter, 1996)
  - **Procedural Justice research** shows that when employees are involved in decision making processes, they are more supportive and willing to go above and beyond (Colquitt, Conlon, Wesson, Porter, Ng, 2001)
  - **Shared Leadership research** has suggested that performance of work teams can be significantly enhanced by sharing leadership (see Avolio, Jung, Murry & Sivasubramaniam, 1996; Ensley & Pearce, 2000; Hooker & Csikszentmihalyi, 2003; Pearce, 1997; Pearce & Sims, 2002; Pearce, Yoo & Alavi, 2004; Shamir & Lapidot, 2003)
- **To what extent did organizations take a shared decision-making approach during the recession, and was it effective?**

# Assessing Organizational Culture

- Quinn & Rohrbaugh's Competing Values Framework (1981) identifies four different types of culture



- Did culture impact the way different organizations responded to the recession?

# Working Hypotheses

## Organizational Culture

- Organizations with a flexibility-focused culture responded to the Great Recession more effectively than organizations that have a stability focused culture

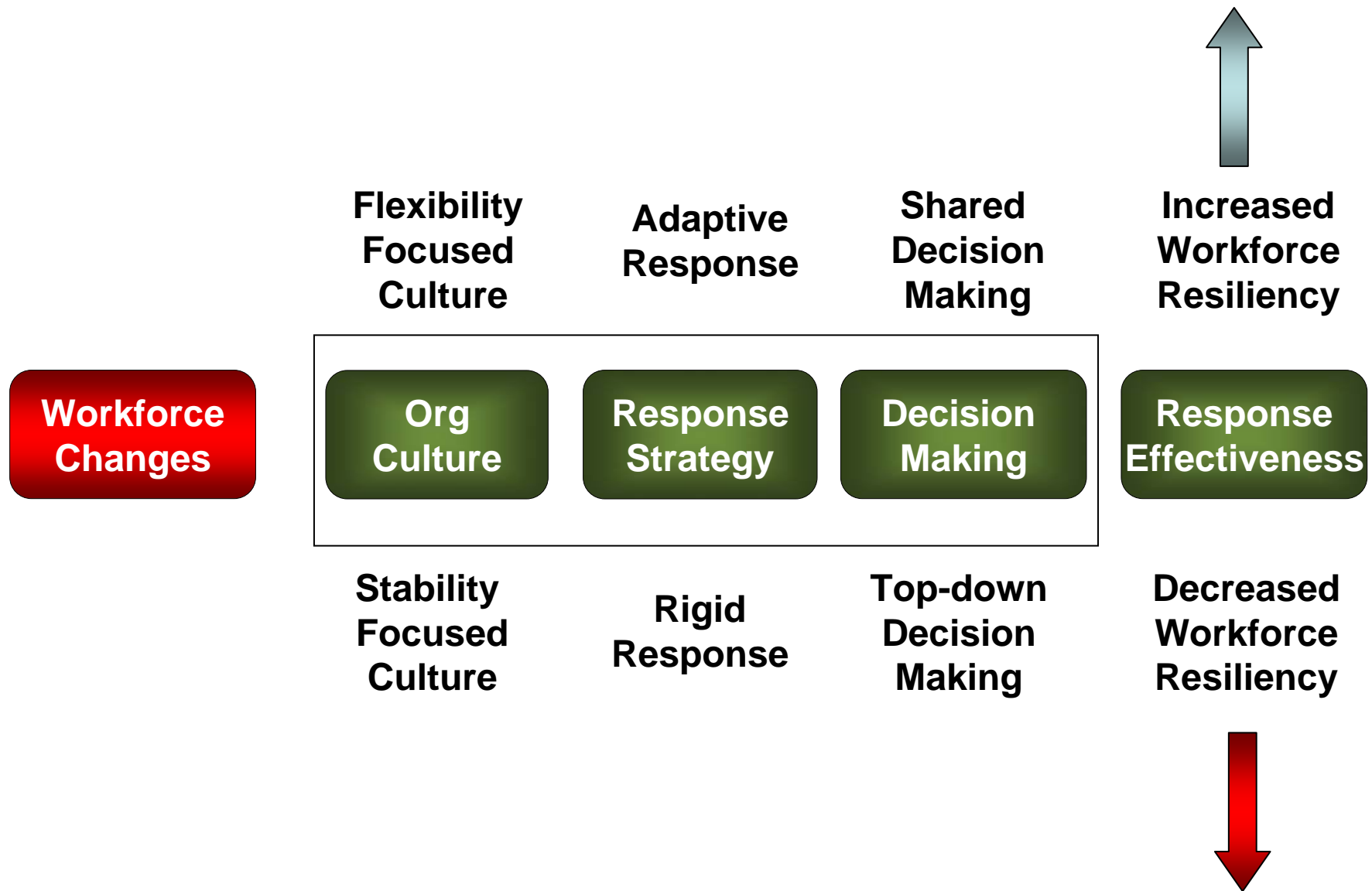
## Response Strategy

- Organizations that shared information broadly responded to the Great Recession more effectively than organizations that limited information sharing

## Decision Making

- Organizations that utilized shared decision-making processes responded to the Great Recession more effectively than organizations that utilized top-down decision making processes

# Conceptual Model



# Method: Participants & Analyses

## Recruiting Procedures

- Exploratory case study of organizations
- Surveys completed by subject matter experts (one per organization)
- Data collected from convenience sample
- Recruiting letters were emailed to a list of over 200 research candidates from multiple organizations
- Usable surveys were received from 21 participants (~10% response rate)

## Analyses

- Descriptives, correlations, content analysis

## Research Sample Highlights

- Received responses from SMEs working in 12 different industries, including
  - Healthcare (4)
  - Retail (2)
  - Professional Services (2)
  - Education (2)
  - Energy (2)
  - Manufacturing (2)
- 12 organizations were multinationals; 9 were US only
- Average organization-size was 42,262 employees
  - Smallest: 250 ees
  - Largest: 350,000 ees
- All respondents were senior level HR professionals knowledgeable of their organizations response to Recession
  - Sample included 3 VPs of HR; 5 HR/OD Directors, 5 HR Managers

# Measures

| Scales  | # of Items | Cronbach's Alpha  |
|---|------------|---|
| <p>1. <b>Workforce Changes:</b> developed eight items—similar to (Lee et al, 2008)—asking SMEs if their organizations underwent various workforce changes such as layoffs and budget reductions during the Great Recession</p>  | 8          | n/a   |
| <p>2. <b>Competing Values Organizational Culture Assessment:</b> (Zammuto and Krakower, 1991; Quinn &amp; Spreitzer, 1991)</p>  | 20         | Clan = .68<br>AdHoc = .82<br>Market = .76<br>Hierarchy = .70      |
| <p>3. <b>Decision Making Process:</b> developed items asking about the extent to which Senior Leaders, Middle Management, Immediate Leaders, and Employees were involved in various types of decisions during the Great Recession</p>   | 24         | Senior = .64<br>Middle = .68<br>Immediate = .78<br>Employee = .81 |
| <p>4. <b>Response Strategy:</b> developed 9 items—including 6 open-ended items—asking SMEs to describe the response strategy their organizations implemented during the Great Recession</p>   | 9          | n/a   |
| <p>5. <b>Response Effectiveness:</b> developed four item index that asked SMEs to evaluate:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> the extent to which employee needs were met during Great Recession;</li> <li><input type="checkbox"/> How successfully responded to the Great Recession from a business perspective and a people management perspective;</li> <li><input type="checkbox"/> The impact the Great Recession had on employee loyalty.</li> </ul> | 4          | .85   |

## Dependent Variable: SME Perceptions of Response Effectiveness

- **How would rate your org's response to the Recession from a *business perspective*?**
  - 19 Excellent or Good
  - 2 Poor
  
- **...from a *people management perspective*?**
  - 14 Excellent or Good
  - 4 Fair
  - 3 Poor
  
- **How effectively did your org meet the *needs of employees* during Recession?**
  - 12 Great or Good job
  - 5 Decent job
  - 4 Bad job
  
- **What impact do you think the past two years have had on your employees?**
  - 2 Employees feel notably more loyal and committed
  - 8 Employees feel somewhat more loyal and committed
  - 4 Employee loyalty and commitment hasn't changed
  - 3 Employees feel somewhat less loyal and committed
  - 4 Employees feel notably less loyal and committed
  
- **Four Item Mean = 3.6 (s.d = .86); Min = 1.75; Max = 5.0**

# Key Findings: Workforce Changes/Stressors

- On average, organizations in this sample implemented **4 major changes** to the employee-employer contract during the Great Recession
- The **more changes** an organization made during the Great Recession, the **less loyal** its employees are now, according to SMEs ( $r = -.507$ ;  $p = .019$ )
- Following the recession, Employee loyalty\* is significantly lower in organizations that had **layoffs** (Mean Dif = -1.5;  $t = -2.51$ ;  $p = .021$ ) or **reduced training** (Mean Dif = -1.1;  $t = -2.14$ ;  $p = .046$ )

Workforce Changes Implemented During Recession

|                                 | Yes | No |
|---------------------------------|-----|----|
| Cut Operating Budget            | 20  | 1  |
| Layoffs                         | 16  | 5  |
| Restructured                    | 14  | 7  |
| Cut Training Budget             | 12  | 9  |
| Pay freezes                     | 11  | 10 |
| Benefit Reduction               | 7   | 14 |
| Bonus suspensions               | 6   | 13 |
| Suspended Engagement Activities | 5   | 16 |

\* As perceived by SME

# Key Findings: Organizational Response Strategies

- **Organizations took various approaches to help their workforces cope**
  - 95% took special steps to communicate with their employees during the Recession
  - 63% implemented manager/leader focused initiatives
  - 50% implemented employee focused initiatives
  
- **SMEs identified five critical needs that employees had during the Great Recession**
  1. Information (28 comments), particularly about org changes, job security, and future
  2. Access to leaders (8 comments)
  3. Support, Acknowledgment, Respect (Interactional Justice) (8 comments)
  4. Growth & Development Opportunities (3 comments )
  5. Involvement in Business Decisions/Improvement Efforts (2 comments)

| Communication Efforts  | Manager Initiatives  | Employee Initiatives   |
|--|--|--|
| <ul style="list-style-type: none"> <li>➤ Town halls &amp; CEO briefings</li> <li>➤ More frequent 1-2-1s</li> <li>➤ Direct E-mails from CEO</li> <li>➤ Crisis website</li> <li>➤ Regular Updates</li> </ul> | <ul style="list-style-type: none"> <li>➤ Communication Training</li> <li>➤ Change Management Training</li> <li>➤ Involvement in Cost Savings Efforts</li> <li>➤ Focus on Dialogue</li> </ul> | <ul style="list-style-type: none"> <li>➤ Wellness Programs</li> <li>➤ Survivor Training</li> <li>➤ Personal Finance Training</li> <li>➤ Workload Mngt Support</li> <li>➤ Retention Bonus</li> <li>➤ Emergency Loans</li> </ul> |

## Key Findings: Involvement in Decision Making

- **During the Great Recession, organizations implemented shared-decision making practices to varying degrees, depending on the type of decision being made**

| Decision   | Senior | Middle | Imm | Non |
|--|--------|--------|-----|-----|
| Setting new strategic goals                            | 72%    | 18%    | 3%  | 2%  |
| Setting new budgets and cost reduction goals           | 77%    | 18%    | 4%  | 3%  |
| Developing new cost reduction strategies to save money | 60%    | 27%    | 9%  | 4%  |
| Identifying new revenue streams/business opportunities | 56%    | 20%    | 7%  | 2%  |
| Identifying opportunities to improve op. effectiveness | 37%    | 30%    | 15% | 8%  |
| Implementing opportunities to improve org. performance | 34%    | 29%    | 17% | 9%  |

- **Shared-decision making was associated with various aspects of response effectiveness. Based on SME survey results:**
  - Organizations with higher levels of Senior management decision-making also report having lower levels of post-recession employee loyalty ( $r = -.441$ ;  $p = .041$ )
  - Organizations with higher levels of non-management decision-making also report that they were more effective at meeting employee needs during the recession ( $r = .463$ ;  $p = .035$ )

# Key Findings: Organizational Culture

- Culture may have influenced the way organizations responded to the Recession. Based on SME responses:**

- The more Flexibility-oriented an organization is, the more likely employees were involved in decision-making ( $r = .439$ ;  $p = .047$ )
- The more Externally-oriented an organizations is, the more likely Mid-level managers were involved in decision-making ( $r = .516$ ,  $p = .017$ ); layoffs ( $r = .514$ ;  $p = .017$ ) were implemented; and the organization went through restructuring ( $r = .521$ ;  $p = .016$ )
- The more Clan-like an organization is, the more likely employees were involved in decision-making ( $r = .567$ ;  $p = .007$ ); SMEs felt their orgs met the needs of its employees ( $r = .436$ ;  $p = .048$ ) , and that the organization responded effectively from a people-perspective ( $r = .467$ ;  $p = .033$ )
- Additionally, there is a pattern of differences across cultures, depicted below:

|  | Clan | AdHoc | Market | Hier |
|--|------|-------|--------|------|
| Number of Organizations                      | 4    | 5     | 2      | 9    |
| Number of Workforce Changes Implemented      | 3.75 | 4.8   | 6.5    | 3.9  |
| Org's response...from a business perspective | 4.50 | 4.20  | 5.00   | 3.78 |
| Org's response...from a people perspective   | 4.25 | 3.80  | 3.50   | 3.56 |
| How effectively did org meet employee needs  | 4.00 | 3.80  | 3.00   | 3.44 |
| Impact of Recession on your employee loyalty | 3.75 | 3.20  | 2.50   | 3.00 |
| Overall Effectiveness of Org Response        | 4.13 | 3.75  | 3.50   | 3.44 |

# What has your Organization learned from the Great Recession?

## ■ SMEs indicate that their organizations learned various things from the Great Recession.

### – Communication is critical

- *“Communication is key. Make fast immediate decisions, which prevents long term anxiety and uncertainty for the employees.”*
- *“People want to know what is happening to move ahead.”*

### – Employee Involvement builds Workforce Resilience

- *“People will respond to difficult times without a lot of upset and resistance if they are asked for their opinions and kept informed.”*
- *“That we can weather the storm (so to speak) and that if we talk openly and honestly with our employees about the situation, they will step up and help us find efficiencies.”*

### – Pay attention to the human side of financial crisis

- *“Security is the utmost importance in difficult times”*
- *“Pay attention to human detail.”*

### – Avoid death by a thousand cuts

- *“It was effective to plan for and implement one restructuring and layoff vs. several smaller layoffs which is what happened in 2001.”*

### – Forecasting is increasingly important

- *“We learned that being proactive and trying to predict the future and taking the necessary steps to put us in a position to weather the storm was critical.”*

### – Set context and remind employees about good things

- *“We forgot to promote what is still great about our benefits. While we had a salary freeze and no bonuses last year...we didn't emphasize what our peers were doing. We just told them the change and didn't always give the context.”*

# Conclusion

## ■ Key Findings

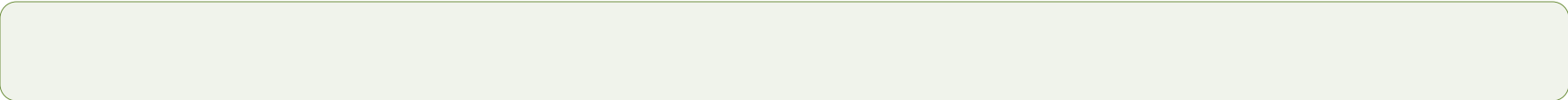
- Organizations implemented a variety of responses to the Great Recession
- In general, the more changes a workforce experienced during the Recession, the less loyal employees are now. Additionally, layoffs and reduced training may have had the most negative impacts on employee loyalty and commitment
- Clear communication, information dissemination, involvement, and shared decision-making may mitigate the potentially negative impact of crisis-based change on employees
- Organizational culture may influence the response strategy that organizations implement during crisis
  - Organizations with hierarchical (stable, internally oriented) cultures may be particularly vulnerable during crisis, while clans may be particularly adaptive

## ■ Limitations

- Case study based on a convenience sample of just 21 companies
- Correlation does not prove causality
- Self-reported measures and potential common method bias

## ■ Next Steps

- Extend research to a broader sample of organizations
- Linkage analysis with other HR data points

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