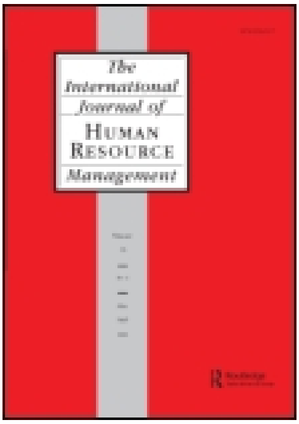

The International Journal of Human Resource Management
Publication details, including instructions for authors and subscription information:
http://www.tandfonline.com/loi/rijh20

Exploring terra incognita: preliminary reflections on the impact of the global financial crisis upon human resource management

Stefan Zagelmeyer [a] [b] & Paul J. Gollan [c] [d]

[a] International University of Applied Sciences, Bad Honnef-Bonn, Bad Honnef, Germany

[b] School of Management and Governance, University of Twente, Enschede, The Netherlands

[c] Industrial Relations Group, Department of Management, LSE, London, UK

[d] Faculty of Business and Economics, Macquarie University, Sydney, Australia

Version of record first published: 06 Jul 2012.

To cite this article: Stefan Zagelmeyer & Paul J. Gollan (2012): Exploring terra incognita: preliminary reflections on the impact of the global financial crisis upon human resource management, The International Journal of Human Resource Management, 23:16, 3287-3294

To link to this article: http://dx.doi.org/10.1080/09585192.2012.689158

The International Journal of Human Resource Management,
Vol. 23, No. 16, September 2012, 3287–3294

Routledge
Taylor & Francis Group

Exploring terra incognita: preliminary reflections on the impact of the global financial crisis upon human resource management

Stefan Zagelmeyer[a,b]* and Paul J. Gollan[c,d]

[a]*International University of Applied Sciences, Bad Honnef-Bonn, Bad Honnef, Germany;* [b]*School of Management and Governance, University of Twente, Enschede, The Netherlands;* [c]*Industrial Relations Group, Department of Management, LSE, London, UK;* [d]*Faculty of Business and Economics, Macquarie University, Sydney, Australia*

Since 2007, the global financial crisis (GFC) appears not only to have shaken the foundations of the financial markets and the real economy; it also appears to have harmed the social and political life of many countries. For human resource management (HRM), the global crisis represents an external shock-wave that changes the parameters within which HR professionals at all levels operate. This paper discusses issues related to the link between the GFC and HRM at a general level. First, we differentiate three stages in the GFC, which overlap in their time-span. Taking a broad perspective, the second section discusses the causes of the GFC. We argue not only that the GFC represents a crisis for markets, organizations and institutions, but also that it represents a cultural crisis of ideas, assumptions, and values. The third section discusses the link between the GFC and HRM, focusing on HR managers in the management of uncertainty. The final section summarizes the main points of the paper and poses questions for future research.

Keywords: financial crisis; human resource function; human resource management; organizational agility; uncertainty

Introduction

Planet Earth between 2007 and 2012. Assume that Herbert Simon's (1991) traveller from Mars, funded by a five-year research grant from the Martian Social Science Foundation, had returned to study the development of markets and organizations on Earth. What would she have seen? First, starting in the United States and then spreading to other parts of the world, she would have noticed the intensity with which organizations (the green patches) and markets (the red connections between the green patches) would fade and flicker like unstable power grids affecting the operation of light bulbs. Second, many of the green patches would contract. Some would disappear, while others – representing employees – would come out in black spots. Some blue lines, the authority relations connecting employees within the green patches, would fade slowly from blue to red, and move from within organizations to the shades of grey now surrounding those organizations. In addition, there would be periodic waves during which the red hue of specific market transactions (first in the financial sector, next in the real economy, and then in public finance) would dim, and then by some forces unidentifiable to our Martian friend, return to their former intensity (or so it seems to her). Last of all then, some of the green patches and red lines would simply disappear. Our Martian researcher would be excited by the

*Corresponding author. Email: s.zagelmeyer@iubh.de

ISSN 0958-5192 print/ISSN 1466-4399 online

http://dx.doi.org/10.1080/09585192.2012.689158
http://www.tandfonline.com

fantastic light show, which represents so much interesting and unexplained activity that it would provide sufficient material to cover for additional research grants in the future.

Since 2007 capitalism has been facing a crisis, the causes, magnitude and consequences of which we cannot comprehend. While 9/11 has shaken the foundations of Western strategic foreign and security policy, the waves of the global financial crisis (GFC) appear not only to have shaken the foundations of the international financial markets and the international real economy, but also to have overwhelmed the political domain and, perhaps, in the long run, moreover, both national and global social domains.

To human resource management (HRM), the global crisis represents for the most part an external shock wave which we will reflect upon later in various ways, and which alters the parameters within which HR professionals at all levels are operating. While this editorial sets the scene of the special issue by discussing developments in general terms, the other contributions cast light on several ways in which the global financial crisis impinges upon HRM. First, they look at the broader context of events including corporate governance (Gollan/Martin), strategic HRM (Nijssen/Paauwe) and employee participation (Marchington/Kynighou). Using qualitative and quantitative research methods, the second set of contributions empirically analyses management options for addressing the crisis (Zagelmeyer/Heckmann/Kettner), the employment effects of negotiated solutions to crisis management (Bellmann/Gerner), and the personal reactions of managers to crisis-related restructuring activities (Jaidi/Thévenet).

The GFC: overview and stages

The financial or economic crisis that began in 2007 together with its repercussions, represents a complex phenomenon. An increasing number of academic and policy-oriented publications focus on the causes and consequences of the crisis and potential remedies for it (Crotty 2009; Hurley, Mandl, Storrie and Ward 2009; Stiglitz 2009; Keeley and Love 2010; Verick and Islam 2010; Coats 2011; Spiegel 2011). In addition – and this is especially relevant for an HR-related audience – they focus on the implications of the crisis for labour markets (ILO 2010a,b, 2011; OECD 2010), labour market institutions (Eichhorst, Escudero, Marx and Tobin 2010; Leschke and Watt 2010), employment relations (Gennard 2009; Lansbury 2009; Baccaro 2010; Zagelmeyer 2010) and aspects of HRM (see, for example, the contributions in this special issue). Analytically, we may distinguish three stages, which are overlapping in terms of their time-span. The first stage, the 'genuine' financial crisis, includes the crisis in the financial sector, originating in the 2007 US subprime mortgage crisis, later spreading to the financial sectors in other countries. Subsequently, banking systems in the affected countries encountered a liquidity crisis in or around the autumn of 2008. In many countries, banks were saved from collapse only by massive extensions of credit from government, with or without the cooperation of other banks, in order to rebuild trust and to stabilize the financial markets.

During the second stage – the economic crisis itself – problems spread from the monetary economy to the real economy, driving the world economy, with varying degrees of intensity by region, into a recession where the usual macroeconomic indicators (e.g. those related to orders, exports, production, revenue, consumption and gross domestic product), were going down at unprecedented rates and subsequently affecting the labour markets. Governments took many a number of initiatives to stabilize the economy, and to stimulate consumption and demand for labour, while other initiatives provided disincentives for creating redundancies. Further policies supported the labour supply in order to minimize the social impact of the crisis and to facilitate adjustment, especially through supplementary labour market policies to increase labour flexibility and skills acquisition (Hurley et al. 2009; Mandl and Salvatore 2009).

After three years of crisis, and after many public stabilization policies to address the financial markets and consumption in various countries, a silver lining appeared on the horizon in 2010, with growth rates picking up in many countries and macroeconomic indicators moving back towards pre-crisis levels.

What had gone largely unnoticed in the public discussions was that public sector finances had been stretched as a result of government stabilization policies financed in many countries through increases in public debt, often against a background of plummeting public revenues, a history of inefficient and 'creative' public finance management, and – in the European Union – market liberalization without the corresponding political and institutional integration. This usually led to strict and severe austerity policies (Theodoropoulou and Watt 2011). And moreover, some states were pushed even to the edge of bankruptcy. While one may argue that state bankruptcy as an isolated event does not bring about the end of the world, the problems of state finance in some EU countries have had massive negative repercussions upon the stability of the entire Eurozone, ultimately threatening the Euro and the European integration project because of the high level of interdependency between banks, financial systems and public finance, most of all within the Eurozone itself.

As the crisis has been moving in cycles from financial markets to the real economy, to public finance, and once again to the financial markets, the ability of the governments, institutional systems and political economies to tackle the challenges seems to have been streched to the limit (Streeck 2009, 2010). The financial crisis mutated first into an economic crisis, and then into a public finance crisis, and now seems to be creeping slowly towards the political and social domains, potentially turning into a political and maybe even a social crisis.

What was the cause?

There are several possible causes. At the beginning of the crisis the financial sector, with its ever-more complex products, was an easy target of criticism. The usual suspects were the 'greedy' (investment) bankers, who – by relentlessly striving for profit – had brought the monetary economy to the brink of collapse. Another easy target is market-liberal economic thinking and its associated economic policy. If anything had become clear during the crisis, it was the insight that human behaviour focused on utility and/or profit maximization will not automatically lead to superior and economically efficient outcomes. Yet many southern European countries, which have less of a reputation of being 'neoliberal', suffered severely in the crisis. There as elsewhere, the political elites have come under attack for being more focused on individual gain and for supporting political entrepreneurs and vote-maximizers in the political competition, rather than directing their efforts toward social wealth and prosperity.

After massive fiscal policy interventions, debt-based Keynesian demand-oriented policy has reached its limits, and both governments and policy-makers still struggle to find a way of tackling the situation in the longer term. Although there has been some talk of a second German 'Wirtschaftswunder' in 2010 (Möller 2010; Burda and Hunt 2011), just one year later the Greek public finance crisis has led to talk of the end of the Eurozone and the Euro as a currency, a situation that was unprecedented in the post–World War II European integration process. One might ask how and why Greece acquired such a prominent role in the public discourse about the (European) crises, and one might be tempted to blame speculators both inside and outside the Old World. At the micro-level this then lead to disputes about who was responsible for granting home mortgages to people presenting a very high risk of default. Others then laid the blame at the door of the governments who provided for the necessary market (de)regulation and failed to monitor the situation, and so on, and so on...

The discussion goes round and round in circles. Whether it concerns the financial markets, the banking system, neoliberalism, governments, speculation, in Greece, in the United States and elsewhere, what the current discussion still largely conceals is that behind all these phenomena, be they related to visible or invisible hands, the decisions about markets, organizations and institutions as coordination instruments of economic activities have been made by human beings, who now appear to have difficulty in coping with the situation.

So, in essence, this crisis is not just a crisis of finance, business, or the economy; it has permeated beyond these narrow confines into the spheres of politics and society. It is not just a crisis of markets, organizations and institutions; much more than that, it is a crisis of ideas, assumptions, values, and culture. Putting it differently, the crisis may be interpreted as a bubble which has burst after years of growth and which now requires measures to consolidate, reorganize, reform and refocus the financial sector. In that sense a problem has become evident, and now requires a solution.

Link between the GFC and HRM

Why then present all this discussion in a special issue of the *International Journal of HRM*? There are two answers: first, the crisis is relevant to HRM because it impacts ultimately on how people are managed. And second, HRM – both as a profession and an academic area within management and the social sciences – can play an important role in addressing the issues connected with the crisis.

The crisis is relevant to HRM in many ways. At a strategic level, the financial crisis is part of the external economic, political and societal environment within which HRM operates. The dynamism and volatility of the crisis have created a high degree of uncertainty within which governments and businesses – through the people in these organizations – take decisions on strategic and operational issues (Streeck 1987). This uncertainty also has an effect on the design of the HR architecture at company level, putting a premium on flexibility.

As to the operational challenges of HRM due to the crisis, first and foremost is the decline in product demand, with its associated decline in labour demand and consequent labour surplus. Financial problems, such as those attributable to difficulties in extending and/or obtaining credit, may lead to downward pressure on (labour) cost. Labour surplus, as well as pressure on labour costs, requires HRM to initiate and implement adjustment policies. More indirect effects may stem from public-sector austerity policies, as well as from the negative implications of the crisis for social insurance policies and pensions. To put it in a nutshell: effective strategic as well as operational HRM needs to take these issues into consideration.

What can HRM contribute to the management of uncertainty caused by the crisis? Compared to other business functions, HRM has the comparative advantage of working at the interface between several critical domains. First, by definition, HRM deals with people, their motives, values, assumptions, diversity of characteristics and imperfections, whether at the individual or the group level. While this relates mainly to psychological insights derived from industrial and organizational psychology, the specialist HRM professional has knowledge, skills and abilities (KSAs) which go beyond it. HRM professionals, especially at the strategic level, have a sound understanding of organizational processes and structures, be they formal or informal, and the environment within which business and human beings operate. And this equips the HRM professional with a set of KSAs which is highly relevant in the current business environment.

Papers in this special issue

The papers in this special issue shed light on how the crisis affects HRM. They cover the following areas:

- Corporate governance
- Strategic HRM
- Employee involvement and participation
- Operational HRM 1: adjustment mechanisms
- Operational HRM 2: employment relations
- Restructuring and management reactions to the ongoing crisis

Martin and Gollan argue in their paper 'Corporate governance and strategic human resources management (SHRM) in the UK financial services sector' that the case of the Royal Bank of Scotland (RBS) in the 2007–2009 GFC caused financial services organizations, particularly the banking sectors, to suffer from an unprecedented decline in their reputation with the general public. Consequently, this has resulted in a questioning of the shareholder value model of corporate governance that has dominated American and British financial services from the 1980s to alternatives to rebuild their reputations. As a result, the authors suggest that the current corporate governance and SHRM theory is incomplete because it glosses over the relationships between these different models of governance and organizational/SHRM variables. Their paper explores what alternatives need to be incorporated into choices between models of governance and how they relate to business ethics, SHRM, organizational climate governance and the role of HR. They examine a simplified version of a new configuration model and show how it can shed light on the crisis in financial services in the UK drawing on a case study of the RBS, one of the most significant of a series of British bank collapses following the GFC.

Nijssen and Paauwe's paper 'HRM in turbulent times: how to achieve organizational agility?' develops a heuristic framework to identify how organizations survive in the dynamic environment caused by the economic crisis, to identify the practices that are important determinants of organizational agility and to determine in what way institutional mechanisms facilitate or hinder organizations in achieving that agility. The paper presents characteristics of a dynamic environment and the challenges faced by organizations in such an environment. The concept of dynamic capabilities is explored and developed towards a heuristic framework for that agility. Overall, the development of their heuristic framework is accompanied by a set of propositions derived from the theory, and concepts are discussed and finally an evaluation is given in terms of its potential contribution in explaining how organizations cope with unforeseen consequences such as the GFC.

Marchington and Kynighou's paper 'The dynamics of EIP during turbulent times' examines the impact of the GFC on EIP. As scant reliable data are available to examine the impact of GFC on EIP, this paper draws on material from company reports, a small survey conducted in the north-west of the England, and other literature and data from earlier periods of crisis to examine how EIP can change at the organizational level. The paper centres its argument on three quite different scenarios: theories of cycles and waves, contrasting business models and product market situations, and HR architecture and sub-contracting. The authors argue that responses to the crisis are generally uneven and often depend on the history of management–employee relations at the organizational level, the context in which the organization operates and the choices that senior managers make about how to respond to crisis. The paper concludes by suggesting that the regulatory space available in liberal market economies (LMEs) allows employers to choose from a range of options whereas in coordinated market economies where EIP is more deeply embedded into the institutional structure of the country, employers are more likely to continue to involve their staff in coping with crisis. In particular, quality enhancement organizations in LMEs aim to differentiate themselves from the competition and thus are more likely to use creative responses that are based around higher levels of employee engagement.

The paper by Zagelmeyer, Heckmann and Kettner 'Management responses to the great crisis in Germany: adjustment mechanisms at establishment level' explores the impact of the GFC at company level. It focuses on management responses among those establishments that were affected by the crisis and explores the internal and external influences on the company's choice of establishment-specific adjustment policies. It draws on representative data from the German Job Vacancy Survey, which includes information on vacancies and recruitment processes and is representative for all industries, regions and size classes. It is based primarily on cross-sectional data from the second quarter of 2009, linked to additional information on companies in the fourth quarter of 2008 (before the crisis). Overall, the findings suggest that any rational cost–benefit analysis may be influenced by cultural and institutional factors as well as by external incentives provided by public policy. As a result labour market organizations and institutions such as legal restrictions, works councils and works agreements, or trade unions and collective agreements may also influence the relative costs and benefit of the policy options that a company faces.

Bellmann and Gerner's paper 'Company-level pacts for employment in the global crisis 2008/09: first evidence from representative German establishment-level panel data' outlines the employment effects of pacts for employment and competitiveness (PEC) concluded at company level and the concessions from both bargaining partners. The authors describe the company-specific concessions and deviations by the bargaining parties from an industry-level contract, such as reduced wages or prolonged working time, in exchange for employment guarantees or investment programmes in order to reduce the likelihood of reduced employment or to improve the company's competitiveness. The analysis is based on the IAB Establishment Panel Survey of the years 2006–2009 to assess the role of PECs within the GFC. Their findings suggest that the adoption of PECs is related to reduced negative employment outcomes for those establishments affected by the crisis.

The final paper in this special issue, 'Managers during crisis: the case of a major French car manufacturer' by Jaidi and Thévenet, is based on a case study of an organization facing significant redundancies during the period of the GFC. The research focuses on a group of 21 managers who remained with the car manufacturer during the crisis. The paper aims to assess how these 'survivors' acted during this period and how they applied the HR measures initiated by the senior executive of the firm. This longitudinal study involved regular qualitative interviews between the period of January 2009 (when the redundancies peaked) and October 2009 (a few months after the redundancies had ended). Their analysis suggests that the managers' reactions evolved from a 'wait-and-see' phase, through a relief stage, a doubtful phase, and then returned to normal stage. The authors' argue that three factors might help explain this evolution: (1) the personal emotions prompted by the policy, (2) the other HR policies that were simultaneously conducted during the crisis and (3) the evolution of the context of the company and of the global economy during the period.

Conclusion

What findings would our Martian friend report back on returning home and what conclusions would she draw from her exploratory inquiry into terra incognita? At the descriptive level, she would report that through various channels the GFC has had a severe impact on markets, organizations and institutions, as well as on the human beings behind those institutions. As the status quo ante had shown a lack of problem-solving capacity to deal with the challenges of the GFC, there would be a need to reconfige markets, institutions and organizations. As the crisis has continued over different stages for an extensive period, one medium-term impact would be a massive increase in the level of uncertainty, which could potentially lead to adjustments towards more flexible, adaptable, and adjustable organizational and institutional arrangements. Every process of change requires a sound knowledge of relevant cause–effect relationships. One of the main problems our Martian friend might report could be that neither markets, nor institutions nor organizations would appear to have the potential to be reconfigured in order to tackle the challenges. She might also observe that markets, institutions and organizations are embedded in a social fabric, which includes all values and assumptions of the human actors within the system as well as formal and informal norms and interconnections between the human beings who are involved. However, the specific design of the fabric as well as the ways markets, organizations and institutions are embedded within the social fabric would be the subject of her next research grant application.

References

Baccaro, L. (2010), 'Labour and the Global Financial Crisis,' *Socio-Economic Review*, 8, 2, 341–348.

Burda, M.C., and Hunt, H. (2011), 'What Explains the German Labor Market Miracle in the Great Recession?' SFB 649 Discussion Paper 2011-031.

Coats, D. (2011), *Exiting from the Crisis: Towards a Model of More Equitable and Sustainable Growth*, Brussels: ETUI.

Crotty, J. (2009), 'Structural Causes of the Global Financial Crisis: A Critical Assessment of the "New Financial Architecture",' *Cambridge Journal of Economics*, 33, 4, 563–580.

Eichhorst, W., Escudero, V., Marx, P., and Tobin, S. (2010), 'The Impact of the Crisis on Employment and the Role of Labour Market Institutions,' IZA Discussion Paper No. 5320.

Gennard, J. (2009), 'The Financial Crisis and Employee Relations,' *Employee Relations*, 31, 5, 451–454.

Hurley, J., Mandl, I., Storrie, D., and Ward, T. (2009), *Restructuring in Recession – ERM Annual Report 2009*, Dublin: European Foundation for the Improvement of Living and Working Conditions.

ILO (2010a), *Global Employment Trends*, Geneva: ILO.

ILO (2010b), *World of Work Report 2010: From One Crisis to the Next?* Geneva: ILO.

ILO (2011), *The Global Crisis: Causes, Responses and Challenges*, Geneva: ILO.

Keeley, B., and Love, P. (2010), *OECD Insights: From Crisis to Recovery – The Causes, Course and Consequences of the Great Recession*, Paris: OECD.

Lansbury, R.D. (2009), 'Workplace Democracy and the Global Financial Crisis,' *Journal of Industrial Relations*, 51, 5, 599–616.

Leschke, J., and Watt, A. (2010), 'How do Institutions Affect the Labour Market Adjustment to the Economic Crisis in Different EU Countries?' Working Paper 2010.04, Brussels, ETUI.

Mandl, I., and Salvatore, L. (2009), 'Tackling the Recession: Employment-Related Public Initiatives in the Member States and Norway,' Report, European Monitoring Centre on Change.

Möller, J. (2010), 'The German Labor Market Response in the World Recession – de-Mystifying a Miracle,' *Zeitschrift für ArbeitsmarktForschung*, 42, 4, 325–336.

OECD (2010), *OECD Employment Outlook 2010 – Moving Beyond the Jobs Crisis*, Paris: OECD.

Simon, H.A. (1991), 'Organizations and Markets,' *Journal of Economic Perspectives*, 5, 2, 25–44.

Spiegel, M. (2011), 'The Academic Analysis of the 2008 Financial Crisis: Round 1,' *Review of Financial Studies*, 24, 6, 1773–1781.

Stiglitz, J. (2009), 'The Global Crisis, Social Protection and Jobs,' *International Labour Review*, 148, 1–2, 1–13.

Streeck, W. (1987), 'The Uncertainties of Management in the Management of Uncertainty,' *International Journal of Political Economy*, 17, 3, 57–87.

Streeck, W. (2009), *Re-forming Capitalism: Institutional Change in the German Political Economy*, Oxford: Oxford University Press.

Streeck, W. (2010), 'The Fiscal Crisis Continues: From Liberalization to Consolidation,' *Comparative European Politics*, 8, 4, 505–514.

Theodoropoulou, S., and Watt, A. (2011), 'Withdrawal Symptoms: An Assessment of the Austerity Packages in Europe,' Working Paper 2011.02, Brussels, ETUI.

Verick, S., and Islam, I. (2010), 'The Great Recession of 2008–2009: Causes, Consequences and Policy Responses,' IZA Discussion Paper No. 4934, May 2010.

Zagelmeyer, S. (2010), 'Company-Level Bargaining in Times of Crisis: The Case of Germany,' ILO Working Paper No. 9, Industrial and Employment Relations Department, International Labour Office, Geneva.