

Human Resource Management in Crisis Situations

Subjects: Management

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Human resource management (HRM) is essential for the competitive advantage of firms. The entry presents a systematic literature review in the field of human resource management in times of crisis since 2008. The study consists of an analysis of 56 articles published in journals indexed in the Web of Science database. Four themes were identified: economic crisis and HRM, health crisis and HRM, natural disasters and HRM, and political instability and HRM.

Keywords: crisis ; economic crisis ; natural disasters ; pandemic ; COVID-19 ; Human Resource Management

1. Introduction

Human resource management (HRM) is essential for the competitive advantage of firms ^{[1][2]}. To a large extent, the literature on HRM has focused on firms in stable business environments, and in many instances, the underlying assumptions are permanent growth and prosperity. However, in the last two decades, many societies around the world have been hit by sudden external shocks, such as the financial crisis starting in the US in 2007 and spreading to Europe and Asia in 2008, and as a consequence, many companies went bankrupt and unemployment rising rapidly, as well as individual and national debts. Earthquakes, hurricanes, and other natural disasters are, furthermore, usually characterised as sudden shocks and HRM is affected in many ways, such as skill shortages ^[3], the well-being of staff, and rising unemployment. Finally, a health crisis in the form of the COVID-19 pandemic hit the world unexpectedly and many firms were forced to close down in 2020, whereas in other cases production was slowed down or came to a halt for security reasons, and services and sales were moved online to keep operations going.

Given the possible severe consequences of crises, it is of theoretical and practical interest to analyse how crises affect HRM. An essential question, therefore, is whether the role of HRM is the same in times of crisis as in normal times. In addition, in what way? For theoretical reasons, it is also essential to know whether different types of crises, such as economic crises and natural disasters, have a similar impact on HRM. Are all crises treated the same in HRM? For practical reasons, managers and HRM staff needs to know what can be learned from crises so that upcoming crises can be addressed more properly.

2. Theoretical Framework

This paper aims to analyse how crises affect HRM, that is, HR strategies, selecting and hiring of staff, training and developing staff, performance management, payroll, and termination ^{[4][5]}. Thus, to reach this aim, this section is a brief introduction before turning to the literature on the link between different types of crises and HRM.

Extant literature has proposed several definitions of crisis. Cater and Beal ^[6] for example, defined a crisis as “a low-probability situation with significant consequences for the organization, a high degree of uncertainty, and a sense of decision-making urgency” (p. 65). Doern et al. ^[7] summarized “that most definitions describe a crisis as an extreme, unexpected, or unpredictable event that requires an urgent response from organizations” (p. 401). According to Williams et al. ^[8], there are three common elements in every crisis, namely, surprise, threat, and short response time. Different types of crises have been discussed in the literature, too. The Institute for Crisis Management ^[9], for instance, makes a distinction between sudden and smouldering crises. The former covers unexpected events in which organisations have virtually no control and perceived limited fault or responsibility. Natural disasters or terrorist attacks can be assigned to this type of crisis. On the other hand, smouldering crises refer to events that start out as small, internal problems within an organisation, become public at some point, and, over time, grow as a result of negligence by the management. Scandals, bribery, or sexual harassment can be listed as examples. In a recent literature review made by Wenzel et al. ^[10] on articles published in Strategic Management Society journals, organisations tend to use four strategic responses to a crisis: retrenchment, persevering, innovating, and exit.

2.1. Different Crises and HRM

2.1.1. Economic Crisis and HRM

The term “economic crisis” is used to describe a severe recession in the economy, where production and services in the economy (GDP) shrink in real terms for two consecutive quarters in more than one industry [11]. The organisational decline is very similar and has been defined as a decline in the main organisational figures, such as return on assets, for two or three years [12]. General consequences of economic recession and organisational decline are reduced economic growth, rising unemployment, private-sector debt reduction, and public organisation deficits and debts [13][11]. In those moments, businesses respond in most cases through cost restraint, asset management by selling off units, and the creation of new revenue [14].

Former research has shown that a recession often leads to changes in labour markets, as well as in HRM practices. Financial crisis tends to reduce demands that have higher pressure on lowering cost, such as labour cost, resulting in wage reductions to redundancies, short-term work, and reduction in training [15][16][17]. Employment relations are altered, such as changing the dismissal law to allow firms to dismiss permanent workers [18].

Previous research has argued that in times of crisis firms can utilise two HRM approaches, namely, “soft” or “hard” models. The former indicates taking care of employees by motivation, support, social and psychological rewards, and providing training to promote successful socially responsible organisations. This leads to a climate of trust and commitment [4][19]. Hard HRM, on the other hand, looks at human resources as “other resources”, and is often related to strategies of cost reduction (Wenzel et al.’s “retrenchment” [10], such as pay cuts and pay freezes, minimal training, outsourcing, downsizing, and work intensification [13][4][5][16]). The outsourcing of HRM functions, for example, is a common practice to reduce costs [5][20][21].

A climate of distrust and less organisational commitment may follow the hard approach to HRM. Firms may also combine these models in times of crisis [13].

2.1.2. Other Kind of Crisis and HRM

Earthquakes, hurricanes, flooding, and other natural disasters are dramatic and destructive events that threaten the well-being of individuals [22]. Such disasters usually have a drastic effect on the psychological well-being of staff, and post-traumatic stress disorder is common among employees in such situations [13]. In addition, skill shortages and rapid staff turnover can be a challenge for HRM systems [23].

The most recent crisis was COVID-19, which spread quickly to many countries and continents, and is therefore classified as a pandemic. The consequences of the pandemic are that many people have lost their jobs, salaries have been reduced, and people have been sent home for distance working [4][24]. On the vast impact of the COVID-19 pandemic, Collings et al. [25] p. 3 wrote:

“By late March, 81% of all workers lived in countries with recommended or required workplace closures and at the end of June 2020, 93%, of the world’s workers resided in countries with some type of workplace closure measure remaining in place”.

The pandemic has had many influences on HRM practices, such as stress, burnout, and exhaustion among healthcare workers; depression and even riots [26][27]; increased infection risk; isolation of patients; work–life imbalances; social isolation and seafarers stuck at sea [28]; and remote working [29]. Organisations have also been affected by reduced productivity, absent workers, disruption in production, lower morale, and anxiety [13][24]. All of this poses great challenges and ambiguity for leaders in general and HR managers [25], as they have to make decisions in very uncertain conditions, and change their communications with employees from face to face to information technology solutions, such as email and video conferencing [30].

Bombing, terrorist attacks, and political instability represent incidents that can be assigned to political crises, the last type of crisis covered in this paper. In the management literature, some research has been done on expatriates moving to hostile environments, where the threat of physical and psychological danger looms [31]. One consequence of political unrest, such as terrorist attacks, is post-traumatic stress [32].

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