



**NEWSLETTER**

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## **RECESSION AND THE IMPACT ON THE HEALTH OF ORGANIZATIONS**

Yes, Canada is now officially in a recession. A survey in November 2008 by the international consulting firm Watson Wyatt (<http://www.watsonwyatt.com/>) found that 44 percent of employers in a number of sectors had made or were planning staff reductions. The findings suggested that November's loss of 71,000 jobs, the most in a quarter-century, was the tip of an iceberg. The survey also found that four in 10 employers would freeze new hires, while nearly one-third would be going through some form of restructuring.<sup>1</sup>

Unfortunately, one of the first areas that organizations examine to reduce their costs during difficult economic times is in areas related to human resources (HR) and workplace health. For knowledge-based organizations the issues are particularly complicated since their human capital is their most important asset, both present and future. Changes to HR practices, working conditions and the workforce can in turn have serious consequences for the health of an organization.

### **Health and Safety**

Fortunately, when it comes to occupational health and safety (OHS), it is largely governed by legislation in each Canadian jurisdiction. As a result, employers must continue to ensure that their workplaces remain healthy and safe as required under the law. This does not mean however that how OHS is implemented will necessarily remain the same. Some OHS programs and management systems may very likely be adversely affected by reduced internal resources normally used to oversee and maintain program integrity. In past reengineering initiatives, positions responsible for OHS overview were merged with other areas of concern, such as the environment, employee disability and labour relations.

A reduction in OHS-dedicated staff can lay added responsibilities on individuals previously preoccupied primarily with OHS matters. In addition, organizations with good health and safety records within their respective industries may not continue to view on-going OHS investment as critical to their competitive position. However, experience has shown that regular maintenance of OHS programs is even more essential in order to avoid inherent dangers associated with applying cost-reduction measures or short-cuts to workplace processes, supervision and worker training.

*"In the current financial climate it is also essential to regard efforts on health and safety as a proper business investment that should provide a satisfactory return. That means making better use of resources, and targeting effort where it will unlock the creativity and commitment of colleagues. Health and safety can, if properly managed, represent a contribution to make organisations leaner, fitter, more productive and effective. This is very different from a compliance with the law model based on telling people what they cannot do, this is all about enabling excellence to emerge and flourish from within the organisation."*<sup>2</sup>

<sup>2</sup> Addressing core health and safety issues in a financial crisis, Lawrence Waterman, HR Zone, <http://www.hrzone.co.uk>, 2-Dec-2008

<sup>1</sup> 'Synchronized recession' to hit Canada hard, Eric Beauchesne, Ottawa Citizen, December 11, 2008

**"Healthier organizations mean more productive employees."**

One of the areas generally affected by downturns and cost-cutting is that of training. Vital to maintaining a good health and safety program, OHS-related training is no exception. The danger is that organizations may be putting employees at risk with inadequate OHS training, be it general or work site specific in nature. Furthermore, organizations risk failing to fulfill their 'due diligence' obligations under OHS legislation, which in turn could lead to violations resulting in subsequent and significant fines and penalties under the law.

### **Workplace Health**

During tough economic times when affected organizations are looking for ways to reduce costs, employees cannot help but become concerned about job security, benefits and general working conditions. Research after the economic downturn of the 1990s found that layoff survivors reported high levels of distrust and lower levels of motivation and engagement. Absenteeism went up, productivity went down.

The US Labour Department reported in December 2008 that labour productivity, the key ingredient for rising living standards, rose at an annual rate of 1.3 percent in the third quarter of last year. Labour productivity is defined as real gross domestic product (GDP) per hour worked. Normally during a recession, output falls which hurts productivity. Analysts believe that the rise in labour productivity was largely attributed to fewer workers being forced to work longer hours in the face of the recent lay-offs and cut-backs. As a result, a declining workforce places additional pressures on the remaining workers to produce in order to remain competitive. Thus, the length of the downturn and uncertainties will determine how work-life balance, worker morale and productivity will be affected. Linger uncertainty leaves many workers feeling anxious, depressed, angry and even physically ill, according to experts who have monitored previous downturns.

### **Consequences for Organizational Health**

During past recessions and economic downturns, various organizations examined their workforces to manage perceived 'redundancies' and find ways to adapt to the times in order to remain competitive in the long-run. However, studies have shown that cost-cutting measures in the area of HR could have negative impacts on the general health of an organization and that of its employees. Some employees may simply feel that they were lucky not to be selected for redundancy; while others may put their non-selection down to their skills and abilities. Some others may not see it that way and may worry about the impact on their ex-colleagues. Some may even bear a personal responsibility. This is often referred to as 'layoff survivor syndrome or survivor guilt'. Organizations need to be aware about what impact layoffs have on the remaining employees. Indeed, remaining employees will watch very closely what happens to their ex-colleagues and the way they are treated by the organization. The outcome will very likely affect how employees perform and view their future with the organization.

In particular, management will have to adjust work loads to take into consideration the reduction in available resources. Reasonable measures should be taken to maintain working conditions which can often worsen under the circumstances. There is no doubt that workplace health will be affected, and may even deteriorate. As part of cost cutting, health practices may also be negatively affected.

*"Downsizing reduces creativity. A longitudinal study of a Fortune 500 electronics company with thirty thousand employees tracked creativity and productivity over time, finding both decreased during the downsizing period. Productivity returned to normal five months after the last downsizing, but creativity levels did not. Employees said they felt stifled, didn't take risks, worried about getting laid off, saw work quality drop, experienced decreases in sense of pride and teamwork, and worried more about protecting themselves than about doing the work."*<sup>3</sup>

<sup>3</sup> "Leveraging the New Human Capital", Sandra Burad and Marie Tumolo, p. 176

***"Healthier organizations mean more productive employees."***

### **What Can Organizations Do to Minimize Negative Impacts?**

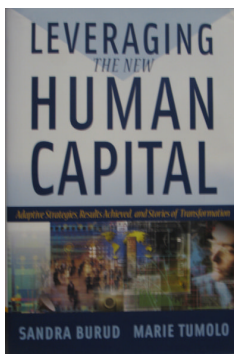
Firstly, management needs to differentiate between the niceties of employment law and the realities of people relationships. Quite correctly, one will tell line managers that it is roles that are made redundant, not people. However, at the end of the day it is people who lose their jobs – no matter how correct the decision may be. So how do we go about handling the people aspects of redundancies? We may be legally compliant, but does that mean we are serving the best interests of those involved and the organization itself?

The following are a few tips which organizations should consider when dealing with HR issues as part of any adjustment initiatives.

- Management should work closely with the HR branch to determine the most effective approach to downsizing/restructuring, including policies affecting recruitment, retention, outsourcing and layoffs.
- Most employment laws require some form of advance notice in cases of large group separations. Regardless, under the circumstances, organizations need to provide sufficient advance notice to allow all affected employees, including those leaving the organization and those remaining, to immediately begin the grieving, acceptance and adaptation phases.
- How the organization's situation is communicated to employees, union and community representatives is very important. The message should be given in a straightforward and consistent manner. If a manager is delivering the message, ensure someone from HR is with them. This type of situation can be very emotional. It is important that the manager has someone there to serve as a witness and who can also answer any 'technical' questions, e.g. about entitlements. Be prepared for a variety of staff reactions and respond accordingly, but always with sensitivity.
- While many employers do not have big budgets for 'outplacement support', all employees should be treated with dignity and respect. HR staff may be able to arrange for confidential access to counselling and advice about handling finances. Help employees in any way possible, including providing time off for job search, preparing job applications, using available employee assistance programs and giving referrals to potential employment contacts.

By handling the situation with sensitivity, clarity and consistency, an organization can hopefully remain on good terms with people both leaving and remaining in the organization. At the very least, organizations will have done the very best that they can in the circumstances – helping to maintain morale and productivity, and thereby remaining relatively healthy.

### **Recommended Reading:**



#### ***“Leveraging the New Human Capital”***

*(Adaptive Strategies, Results Achieved, and Stories of Transformation)*

by Sandra Burad and Marie Tumolo

(Davies-Black Publishing, Palo Alto, California, 2004)

### **Recommended Web Sites:**

- Watson Wyatt: <http://www.watsonwyatt.com/>
- Workforce Management On-line: <http://www.workforce.com/>
- Society for HR Management: <http://www.shrm.org/>

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