Economic crisis and the employee

History

Introduction

Commitment in the workplace plays a major role in contributing towards the performance and efficiency of an organization. For an organization to perform at its peak level, its workforce must be committed towards thegoalsof the organization and must be engaged with their work (Rehan & Islam 2013). In unprecedented changes and economic uncertainty, it becomes a major challenge for organizations to maintain a committed workforce. This is especially the case as seen in the periods of recession and economic downturn where job security became unpredictable.

Cost cutting efforts became a reality during this period of economic downturn from staff reductions to pay cuts to scaled back benefits. The recent economic downturn that saw executives in a range of industries considering cost reduction programs had significant impacts on employee commitment and engagement in their work. According to a 2010 Hewitt survey of companies across the globe, there was a significant drop in employee engagement with over half of the companies surveyed reporting disengaged employees (Aon Hewitt 2010). In fact, this was by far the largest decline ever experienced in more than 15 years of researching the metric (Cataldo 2011)

Cost cuts are often necessary during tough times such as recession and economic downturn. However, a dimension of cross cutting that most companies have often ignored is the critical need to ensure that cost cuts are done in ways that support the emotional commitment of the workforce. Whereas it is a common phenomenon to see companies placing themselves in a cycle of cost reduction during times of recession, it is debatable whether cost-cutting efforts should include interference with the workforce especially given that pay cuts and layoffs are often at the center of the cost cuts.

Should companies under tremendous recessionary pressures make cuts that include staff reductions and pay cutsOr should they approach cost reduction in ways that reinforces companycultureand integrates emotional commitment of the workforce with the business strategic imperativesThese are some of the questions that we seek to address in this paper. While seeking answers to these questions, the paper devotes particular attention to the relationship between stable income and engagement levels. In particular, the paper critically evaluates the view that during times of recession and economic downturn, employee commitment can be assured with a steady income while drawing on journal articles and organizational examples.

Employee commitment and engagement

Before exploring further on this topic, it is important to first define ’employee commitment and engagement’. Khan (1990) defined employee engagement as “ the harnessing of organization members‘ selves to their work roles; in engagement, people employ and express themselves physically, cognitively, and emotionally during role performances (Khan 1990: p. 694). Since Khans definition, this term has been re-defined and reconceptualized in various ways by researchers and HR practitioners.

Employee commitment often goes hand in hand with engagement and can be defined as the degree to which employees in an organization are bound to the organizational activities intellectually and emotionally (Harter et al. 2002). Whilst engagement is related to employee commitment, a key point to remember is that, it is by no means a perfect match of commitment and neither does commitment reflect sufficiently all aspects of engagement (Robinson et al. 2004) Nonetheless, for the purpose of this analysis, we argue that engaged employees are more committed to the organization.

Employee commitment and engagement critical for success of an organization

There is a wide consensus among scholars and HR practitioners that employee engagement is critical for the success of a business. Research has often shown that engagement in the workplace promotes retention of talent, foster customerloyaltyand improve performance of the organization as well as improving stakeholder value (Kumar & Swetha 2011). For instance, Tower Perring global workforce study found that companies with motivated and highly engaged workforce experienced an increase of 30% in net income over a one year period whereas those with disengaged employees experienced a 4% decline (Tower Perrin 2009). Subsequent studies have made similar conclusions including studies by Harter et al.(2003), Macey & Schneider (2008) and Schneider et al. (2009).

Commitment in the work place is often manifest through devotion of time and energy to fulfilling job responsibilities. There is also an emotional component to this commitment which is usually expressed in terms of positive feelings and attachment with the entity.

Psychological contract

To further understand the relationship between employer and employees; it is worthwhile mentioning psychological contract. As defined by Rousseau & Tijoriwala (1998), psychological contract refers to the implicit and explicit promises that two parties make to one another. In this case, an employer makes a promise to provide rewards to the employee in the form of job security and income if the employee remains committed and actively engaged with the activities of the organization. The contract is termed psychological in the sense that it reflects both parties' perception of the relationship and promises involved.

Since people expect to be rewarded for investing their time and energy on the job responsibilities, it is only rational to have them fairly compensated. As such, employers have traditionally made a tacit agreement that in exchange for their employees' commitment to their work; they would provide forms of value in the form of fair compensation and job security (Rousseau & Tijoriwala 1998). Reducing the income of employees during such hard times thus amounts to violations of their psychological contracts. And such violation often results in increased levels of exit, voice and neglect behaviours and ultimately decreased level of engagement and commitment to the organization

The human resource is without doubt one of the most important capital in business. As noted in Towers Watson report (2005), motivated employees are more productive than dissatisfied ones. Further, CIPD (2006) research has shown that besides performing better than others, engaged employees are more likely to recommend others to the organization and are less likely to take leaves or quit (Truss et al. 2006). Good management of the human capital is thus of great importance as it translates to satisfied and committed employees.

Several theories have been formulated to help employers understand the factors contributing towards employee performance and satisfaction. For the purpose of this analysis, this paper will explore Marslow's Hierarchy of needs theory, one of the most well known motivational theories.

Hierarchy of needs theory

As asserted by Maslow, employees are motivated by several needs which can be arranged to form a pyramid starting with the most essential needs. Maslow's theory identifies five levels of hierarchical needs that employees want to satisfy starting with the physiological needs (shelter, hunger and thirst) and then moving up the pyramid to satisfy the safety, social, esteem needs and to the ultimate need of self-actualization (Maslow 1943). The pyramid shape in Maslow's hierarchy of needs model show that some needs are more important than others and as such, employees would want to satisfy these needs first before satisfying those in a higher level.

Maslow's Hierarchy of needs model (Rynes 2004)

The importance of pay (income) as a great motivator can be explained theoretically by the fact that it plays a crucial role in obtaining many of the desirable needs (Rynes 2004). For instance, to satisfy the physiological needs, employees require income. In addition to Maslow's frequently mentioned physiological needs (foodand shelter), money(in the form of income) also paves way toward social status and achieving other needs

(Rynes 2004). Assuring employees of a stable income in periods of recession and economic downturn can thus contribute significantly towards their commitment to work.

Often, employees are anxious about job security; pay cut and pays freezes during such tough times. It is thus important for employers to ease some of these fears by assuring employees about stability of their income and cutting back in other areas. Whilst it may be difficult to sustain both the company and employees, it is critical to maintain the workforce motivated and committed to their work by assuring them that their income would not be affected by the harsh effects of recession. If employees are anxious about their job security and stability of their income, then their commitment to the company and engagement with their work becomes adversely affected.

Studies supporting the view that stable income assures employee commitment

Concerns over employee retention and ensuring their commitment andmotivationduring such periods of intense pressure have been widely debated upon in the human resource circle. There are many strategies that have been suggested to keep the workforce committed and motivated during such tough times of recession. These include: assuring employees of job security, offering them fair and comparable pay structures, strengthening the relationship with employees, and cutting back in other areas among many others (Conrad 2012). Whilst these strategies may be employed, our in interest in this paper is critically evaluating whether employee commitment can be assured with a steady income during such times of recession and economic downturn.

A large number of studies have pointed out to the adverse impacts of cost cut measures that include pay cuts. According a Right Management Survey (2010) conducted on North American workers, 60% of the 900 respondents surveyed indicated their intent to leave their current employer as soon as there was an improvement and recovery of the economy. Similar conclusions have been reached upon by subsequent studies across the globe.

A recent ORC International research on Australian companies showed a significant decline in employee engagement, with Australian organizations lagging behind other industrialized countries in employee engagement levels (Conrad 2012). The importance of maintaining a stable income to ensure a committed and motivated workforce is further evident in Britain where research has painted a worrying picture of a ‘ standstill Britain’. In the UK, the level of employee engagement dropped significantly during the recession. According to a quarterly Employee Outlook survey report (2010), employee engagement levels reached an all-time low in the UK, with job satisfaction falling to 35 in 2010, down from 48. These findings have been confirmed by another Global Workforce Study (GWS) by Towers Watson which surveyed 2, 628 workers in the UK. The study found 26% of the workers feeling stuck in their role, 40% wanting to leave their current jobs, and a vast majority of 77% arguing that their ability to advance their careers had worsened (Towers Watson, 2012).

Adding to these concerns, only a third of the workers surveyed thought of their organization as providing good pay and opportunities forcareerdevelopment. Worryingly, 66% felt that there was no clear link between performance and pay, indicating the lack of incentive for motivating the workers (Towers Watson 2012). As pointed out by Yves Duhaldeborde, the head of surveys at Towers Watson, the research paints a worrying picture as workers and businesses reach a standstill with creativity and ambition taking a back seat. The post recession reality is that many of the workers have hit ambition ceiling and are choosing a steady income over creativity and career advancement.

Several other studies have shown pay to be the most effective motivator. In their meta-analysis, Locke et al (1980) concluded that money was the most crucial incentive and effective motivator than other incentives. This finding has received support from subsequent researches. However, research on this topic has produced mixed results.

Studies arguing against stable income as an effective motivator

Contrary to the popular view, some studies have shown that pay is not necessarily an essential motivator. For example, in a survey by Towers Perrin (2005) which identified some of the top ten motivational factors, pay was not listed among the list. Among the top five motivators identified by the survey were: managers’ interest in the well being of its workforce, challenging work, customer focus and decision-making authority (Rynes et al. 2004). moreover, whilst a large number of studies have shown that recession impacted negatively on employee engagement with most of the workforce worried about layoffs and decreases in their income, new research from Gallup has shown that the fear may not have been as dramatic as publicly pronounced.

The Gallup study found that, despite the intense recessionary pressures, employee engagement stayed fairly even and that employees remain confident of a ‘ trustingenvironment’ during this period (Cabtree 2011). Further, a similar study by Kelly International (2010) found that, contrary to the popular view, employee loyalty increased during the recession period with 52% of the North American work force remaining totally committed to their company. Most of these respondents argued that recession itself were responsible for heightening their loyalty.

With the market slowly rebounding, businesses are on track to increase the salaries of their employees in order to retain their top talent. Although the prime focuses of engagement efforts seem to be based on financial rewards, it is not always the case that employee commitment can be assured with a steady income. Most of the organizations today still do not understand how to effectively engage their employees.

As reported in a 2009 work survey by Deloitte Company, employees of today value meaningful work, more opencommunicationand connection to the organization more than high salaries. Employees who feel valued and connected to their organization are far more likely to remain actively engaged than slightly higher-paid employees. Whereas the income effect has an impact on employee engagement, its effect tends to wear off over months of discontent.

This is further evident in a recent employee engagement survey conducted by WorldatWork in collaboration with the Hay Group and Loyola University Chicago. The survey found a weak relationship between base pay and employee engagement and commitment; compared to intangible rewards, incentives andleadershipquality. The study concluded that non-financial rewards had a greater impact on employee engagement compared to financial rewards.

Nonetheless, voluminous evidence obtained from several hundreds of studies have found a strong positive correlation between the two. Hence, it can be inferred that during times of recession and economic downturn, employee commitment can be assured with a stable income. Whereas pay on its own may not be sufficient in effectively engaging employees, assuring employees about stability of their income would support the emotional commitment of the workforce.

Conclusion

Many businesses have often succumbed to the pressures of maintaining the workforce amidst diminishing revenues especially when under intense recessionary pressure. Most companies have often ignored the critical need to ensure that cost cuts are done in ways that support the emotional commitment of the workforce. Such cost cutting measures certainly impact negatively on the workforce, often leading to decreased levels of employee engagement and loss of top talents.

Businesses have to take a strategic approach to employee relations in order to retain their top talent and emerge as winners of the talent wars. Cost reduction should thus be done in ways that reinforces company culture and integrates emotional commitment of the workforce with the business imperatives. Before implementing any cost reduction strategies, executives have consider whether such strategies would damage their value proposition to employees, thereby affecting their motivation and commitment which eventually results in disengaged employees.

Although some studies have shown that pay is not necessarily an essential motivator and that employees tend to value meaningful work, more open communication and connection to the organization more than high salaries, voluminous evidence obtained from several hundreds of studies have found a strong positive correlation between the two. Based on this analysis, we conclude that maintaining a stable income during such hard times of recession and economic downturn would certainly help to keep engagement levels relatively high.

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