

HRM practices a predictor for business resilience after layoffs

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As retrenchments continue to cloud the foreseeable future of businesses worldwide, new research from the University of South Australia, the University of Melbourne and RMIT indicates that some businesses will

fare better than others—and it's all dependent on their type of human resource management system.

In a new study published in the *Human Resource Management Journal* this week, researchers found that the ability of an organisation to recover after layoffs is directly connected to their HRM system: those that encourage participative, motivation practices will recover more quickly than those that emphasise [financial incentives](#).

Layoffs are a dire reality, occurring recently across many industries including travel, hospitality, entertainment and retail, as well as professional services, but as UniSA researcher, Professor Carol Kulik says, HRM research delivers important insights for organisational resilience in times of hardship.

"In recent weeks we've seen many organisations tighten their belts to stay afloat, with some resorting to layoffs in the hope that a 'leaner and meaner' structure will help them retain or restore a competitive edge," Prof Kulik says.

"But the challenge is, the success of a layoff depends on the surviving staff, who inevitably must work harder as the workforce shrinks and, as a result, organisational performance drops.

"Our research shows that businesses with strategic HRM systems focussed on participation and collaborative communication practices are far stronger in times of adversity. This is because the nature of these HRM practices have developed a culture of trust. As a result, employees are more likely to feel that they share the responsibility and step up to help management move the organisation forward.

"On the other hand, organisations that place a heavy emphasis on financial incentives—that is, pay for performance—create a culture of

risk. Here, businesses align workers' financial interests with those of the company, encouraging employers to 'take a risk' that their investment (in working hard) will pay off and they will share in the company's profits.

"Layoffs in these situations tell employees that their risks will not pay off, so when incentives drop, so too does performance."

Drawing from five years of WERS data (Britain's flagship survey of employment relations) which included 745 workplaces, the team used cluster analysis to identify workplaces with high-performance workplace systems (HPWS) - systems that use integrated HRM practices such as rigorous selection, training, and teamwork to motivate and maintain [high performance](#)—and regression analyses to compare the performance effects of different employment systems.

The researchers found that 60 percent of workplaces had HPWS and that these outperformed businesses with less-strategic HRM practices. Additionally, it highlighted the benefit of collaborative HRM practices as opposed to financially driven HRM practices.

"High-performance workplace systems send clear messages to employees about what the employer values, motivating employees to focus on those particular parts of their performance, so these produced higher performance than those without such clarity," Prof Kulik says.

"But, when we assessed the impact of these systems after significant [layoffs](#), we found that businesses that emphasised financial incentives experienced bigger drops in performance, and even five years later, hadn't yet recovered.

"For organisations, this research shows how important it is to send clear, strategic messages to employees as these will guide and increase performance.

"Yet for those who link HRM practices with financial incentives, there's an extra warning: while financial incentives work when it's [business](#) as usual, in times of hardship the short- and long-term performance of those organisations is likely to suffer."

More information: Christina Cregan et al, The influence of calculative ("hard") and collaborative ("soft") HRM on the layoff-performance relationship in high performance workplaces, *Human Resource Management Journal* (2020). [DOI: 10.1111/1748-8583.12291](#)

Provided by University of South Australia

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