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**Impact of Recession: What Has  
Happened to HR?**

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## **Impact of Recession: What Has Happened to HR?**

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What has been the effect of the recession on HR? There is a lot of speculation about how it has affected the function, but little data exist on what has happened. Let's look at two scenarios about what might have happened and then look at some data that show which one seems to have occurred most frequently.

When the recession began, HR was struggling with what seems to be a perpetual credibility problem. The popular press was continuing to characterize HR as ineffective, an obstacle to change and as the most ineffective part of the typical organization. HR was responding to its critics by trying to become more of a "business partner" and by trying to add more value.

Given the low effectiveness of the HR function and its problems with being "heard" it would not be surprising if the impact of the recession on HR's status and effectiveness has been negative because of the way HR has responded to it. For example, HR may have made it difficult for organizations to cut their labor costs and to make other changes that managers felt were needed to accommodate the economic downturn. As a result HR may have added to its reputation as an obstacle to change. It also may have failed to provide good answers to the tough talent management and HR policy questions the recession raised and as a result be seen as a poor business partner. Finally, it may have been subject to significant cost reductions since it is viewed as overhead and at times an unnecessary expense. In short, as a result of its low effectiveness and how it has reacted to the recession, HR in many organizations may be less credible and effective today than it was when the recession began.

There is a much more positive scenario, however. It is that the recession created a situation where a large number of organizations needed to develop new competencies and capabilities and to change their strategies. As a result of these changes they needed to make key changes in the composition and size of their workforces. The amount and kind of change needed to adapt to the recession therefore was one that HR could lead and make valuable contributions to. Who better to realign the strategy talent and competencies of an organization than the HR function?

If HR stepped up to the plate in the way it responded to the changes that needed to be made, it could not only have been an operational driver that helped reduce costs, it could have been a strategic driver that helped reshape the organization's business strategy. Overall, HR may have taken advantage of a great opportunity to demonstrate its value and as a result have significantly improved its reputation and credibility.

### What Has Happened

In order to assess how HR has been affected by the recession and what its response to it has been, we surveyed slightly less than a thousand HR executives and general managers in US corporations. The survey asked them how the HR function has changed in their organization as a result of the recession and what specific steps the HR function has taken to deal with the recession.

Exhibit 1 presents data from HR executives. It reports the responses to three questions that ask about the degree to which the HR function in their corporation has changed as a result of how it has responded to the recession. The results paint a positive picture of what has happened to HR.

**Exhibit 1 Recession Impact (HR Executives)**

	Decreased	No Change/Stayed the Same	Increased
<b>Power and status of HR function</b>	14.9	58.2	26.9
<b>Strategic role of HR function</b>	14.0	47.1	38.9
<b>Effectiveness of HR function</b>	8.8	54.9	34.9

In only a small percentage of corporations did the recession result in a decrease in the strategic role, power and effectiveness of the HR function. In most organizations HR either stayed the same or increased in these areas. HR has gained in power and status, become more strategic and improved its overall effectiveness in over a quarter of the companies surveyed. In short, the data strongly suggest that HR has benefited significantly from how it has responded to the recession. But, and it is a big but, these data come from HR managers and they may well be guilty of wishful thinking rather than being accurate reporters of what has happened!

**Exhibit 2 . Recession Impact (Managers)**

	Decreased	No Change/Stayed the Same	Increased
<b>Power and status of HR function</b>	7.4	67.6	25.0
<b>Strategic role of HR function</b>	2.9	67.6	29.4
<b>Effectiveness of HR function</b>	14.4	59.4	26.0

In order to assess the credibility of the HR executives, we need to look at what other managers in their corporations report. Exhibit 2 shows the results for executives who are not in the HR function. They are very similar to the results for HR executives. Thus, there seems to be a consensus that HR in fact has improved its effectiveness as a result of what it has done during

the recession. The high level of agreement between HR executives and other executives is an important finding in and of itself. It suggests that despite what is often said about HR executives they do know what is going on; they are not out of touch!

### HR Changes

In order to get a sense of what the HR function has done that has improved its status and effectiveness, we asked a number of questions about how HR changed its way of operating during the recession. Our analysis shows that a number of changes in how the HR function operated during the recession are strongly related to the degree to which HR improved during the recession. There are no dramatic surprises here, but there are some important reminders of what HR needs to do in order to be effective.

Many of the things that led to HR improving its position and functioning during the recession are things that HR has said it wants to do and has been advised to do for decades. Let's briefly review the changes that are most strongly related to improvements in the effectiveness of HR.

### **Talent Management**

Improvements in talent management are most strongly related to HR improving its effectiveness. Those HR executives that report their organizations making a stronger commitment to talent management and improving the quality of their talent management decisions showed the most improvement in the effectiveness of their HR function. This result provides one more confirmation that HR functions must be expert in talent management.

The results also confirm the importance of a key talent management practice. Those organizations that reported a greater focus on performance management were particularly likely

to see improvements in the status and effectiveness of HR. Having a performance management system that produces accurate data about talent is fundamental to making many of the talent management decisions that organizations need to make during a time of economic change and turmoil. Thus, it is logical that doing it well is associated with being an effective HR function.

### **Analytics and Metrics**

Closely related to the areas of talent management and performance management is HR analytics and metrics. Those organizations that put more emphasis on them tended to be the biggest gainers in the power and effectiveness of their HR functions. This is one more confirmation that in order to be a credible function, HR needs data and analytic capabilities that show how effectively the HR organization is operating and how the talent management systems of the organizations are performing.

### **Innovation**

Willingness to change showed strong relationships to improvements in the status and effectiveness of the HR function. Those HR organizations that reported an increased willingness to try innovative HR activities showed large gains in status and effectiveness. This is not surprising given all the criticism of HR for not being willing to innovate and try new things, but it is still an important confirmation of the reality that HR needs to open to new practices.

The survey asked about two kinds of changes that the HR function could make. One question asked about the use of short term fixes to solve HR problems created by the recession. The other asked about focusing on practices that had clear and tangible results. The data show that the focus on short term fixes had relatively little impact on the power, status and effectiveness of the HR function. Those organizations that emphasized this gained slightly more

than those that didn't, but it wasn't a strong relationship. The stronger relationship was associated with increasing the use of practices that have tangible results. The more HR organizations focused on practices producing tangible results the more they gained in power, status and effectiveness.

### **Time Spent**

One change was not related to the effectiveness of the HR function: spending more time on administration. HR must do a certain amount of administration and do it well. That said, the types of major changes that organizations need to make in a recession cannot be accomplished by spending increased time on administration. Good administration is needed in order to implement change, but there are more important higher payoff places that HR should focus on in order to increase its status and effectiveness.

### **Conclusion**

In many respects our results are good news for HR. They suggest that HR has improved its position in many organizations as a result of how it responded to the recession. They also indicate the paths that HR needs to follow in order to continue to improve its effectiveness. The results strongly suggest that a commitment to talent management, use of analytics and metrics and the willingness to try new practices should be a big part of HR's future.

A note of caution, it is possible that the practices which led to HR effectiveness in this study are only good in times of recession, however this seems highly unlikely. Our view is that they are good for all seasons and should become part of the competencies and capabilities of HR functions regardless of the economy. They are just the kind of capabilities that managers have been calling for HR to develop for decades and that critics of HR have said all too often are

missing in the HR function. Our data on HR's reaction to the recession provides one more piece of evidence that if the HR function adopts them it is likely to gain considerably in power, status and effectiveness.

One final point, it is important to note that many HR functions were able to increase their performance management, analytics, and talent development activities in a time when cut backs were taking place. The very fact they were able to do this shows that organizations consider them to be a priority. At a time when budgets were being cut and payrolls were being reduced, they proved to be areas where more was done. This suggests that post recession there may be increased financial support for the HR function if it emphasizes that it wants to increase its activities in these areas.