

Effects of Economic Slowdown on Employee-Employer Relationship & Work Environment

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Abstract

This is an elaborate study on the effects of Economic Slowdown on the management and employees. During economic slowdown, managements generally go for sudden retrenchments, cuts on various incentives/perks, increase in workload etc to set a balance between output and cost. The fear of losing the job anytime leading to piling up of stress is a common feature amongst the employees. It is thus imperative to understand the behaviour of management and employees so as to find out ways and means to handle such situations. Due to intense pressure and stress during slowdown the employee-employer relationship also gets affected, it may result in major layoffs further leading to fear among the employees. These aggressive cost cutting measures might lead to high absenteeism, low turnover, less job involvement and hence the low productivity.

The research paper is based on extensive primary data collected through questionnaires. The secondary data through articles, journals, books, reports and discussion papers have also been duly referred to.

Keywords: Economic Slowdown, Employee – Employer relationship and their Behaviour.

1.1 Introduction

The Great Recession also known as Long Recession, the Lesser Depression, the Global Recession of 2009 or global economic decline of 2009 began in December 2007. The recession emerged majorly in September 2008. The global recession is classified into two phases, the active phase and the passive phase. The liquidity crisis where there is a negative financial situation which occurs due to the lack of cash flow is marked as an active phase of the global recession which occurred on August 7, 2007. This happened when the BNP Paribas terminated withdrawals from three hedge funds citing "a complete evaporation of liquidity."

In 2006, there was a massive effect on the financial institutions globally leading to cascading effects over series of events. The cause of this damage was the bursting of the United States housing bubble (economic bubble) which happened due to the drop in price of the Case-Shiller home price index on December 30, 2008. It further crashed the values of securities tied to United States real estate pricing. This credit crisis resulted to the global economic recession affecting and causing detriment to the economic world from the period 2007 to 2009. By mid-2008, the recession after hitting the U.S.

economy spread over to many important countries in the European Union and Japan.

The recession had a major impact on the business world throughout the globe. Many companies including private and the multinationals situated in different countries had to face the detriment of firing and resigning of employees working in their company and changes in the management process and decisions. The employees had many factors to consider alternatives for their job and career growth. The recession had major impact not only on the financial functioning of the company but also on the other aspects of the companies. This aspect can be broadly classified on those who are the reasons behind the working of the company, the management and the employees.

This paper makes an attempt to study the impact of economic slowdown on the employee - employer relationship and their behaviour.

2. Literature Review

2.1 Impact of slowdown on IT sector

The Asian Continent is experiencing serious consequences of this crisis due to “*Domino Effect*”. The countries who have their markets primarily outside their national boundaries or which are depended on exports suffered the most.

Countries with higher reliance on the sell abroad markets are expected to be affected more than other markets with stronger internal or domestic demands. India is one of the world's fastest-growing tech markets, thriving mainly on exports and thus is bound to experience the shudders of global monetary catastrophe. IT spending as a percentage of revenue normally varies from 3.5% in manufacturing companies, 5-6% in global retail chains to about 9.5% in the banking industry. These could see marginal decline as companies will tend to hold spends on new IT deployments.

A recent study by Forrester reveals that 43% of Western companies are cutting back their IT spend and nearly 30% are scrutinizing IT projects for better returns. The slowing U.S. economy has seen 70% of firms negotiating lower rates with suppliers and nearly 60% cutting back on contractors. With budgets squeezed, just over 40% of companies plan to increase their use of offshore vendors. The IT services and outsourcing market is currently undergoing a structural transformation that will have a profound impact on the IT business.

Clientele have started to decrease project scale and / or delay new expansion. They are also trying to move the business to cheaper offsite pastures for cost cutting; some of the south-east Asian countries are cheaper than even India. The impact is likely to be higher for discretionary outsourcing expenditures rather than for critical, on-going Application Development and Maintenance (ADM) services. Indian IT companies which are resolute on more vital ADM services contracts of outsourcing of long term could demonstrate more stable income. Furthermore though optional expenditures are reduced but projects which have been undertaken already will continue especially those in advance stages. Fitch expects IT companies to report marginally positive revenue growth (in dollar terms) over 2009. With decisions on IT budgets being deferred and sales cycles having elongated from 3-6 months to 6-9 months, companies are seeing a significant drop in client additions. Moreover, the number of targeted large deals has more or less dried up. According to TPI, mega deals have fallen to levels lower than those seen in 2001.

2.2. Effect of Economic Slowdown on Employer-Employee Relationship:

Bryan Finn, founding partner at consultancy Business Economics, says: "What happened in September made a short, sharp recession much less likely."

This is prone to incline the equilibrium of the psychological contract in favour of employers. Mark Eaton, director at Personal Group, says: "For the past 10 years this has been steadily moving in employees' favour, to the point where potential employees were effectively interviewing employers for jobs. I think the pendulum will now swing back."

In tough economic times, employees are more concerned about job security than career growth hence are not keen on switching jobs. Staffs are also more interested in the long-term viability of their employers, says Uzair Bawany, group managing director at Contact Recruitment, which serves the finance sector. "Candidates want to know about the strength of companies and whether they will be the next to go under. These are questions we have never heard before," he says.

Paying high pay packs is not enough, instead, employers need to revise the way they regard staff. "If they see employees as a cost rather than an asset, they will be preoccupied with trying to get that cost down," says Barwick.

2.3. Reducing Costs

The dilemma is that many employers are under demands to cut costs, so even if they are not looking at direct layoffs, they are at least looking at cutting other bites and perks and other benefits that are generally bestowed on employees.

One way of employers making savings is to consider the use of tax-efficient benefits offered through salary sacrifice arrangements. This can produce tax savings for employees as well as savings on national insurance contributions for both employee and employer.

Employers will also be keeping a tighter restraint on salaries. Staff, however, does not always look fondly on perceived controls in this area. In the public sector, there is already a large ballyhoo regarding government's decision on cost cutting. Hannah

Reed, a senior employment rights officer at the Trades Union Congress, says: "At this stage, employees and unions are saying to employers that they need to be realistic in terms of pay increases, which should reflect increased living costs."

The economic situation could also influence the beneficial provisions such as Pension. Mark Groom, director for HR and tax services at Price water house Coopers, warns the decline could slap any defined benefit pension schemes still operative. Exact figures difference according to the accounting method used, deficit does not yet appear to have grown significantly, although in the long term it may.

2.4. Taking Control

On the other side of the coin, Bawany has seen many employees wanting to take control of their own pensions to reduce the possibility of losing their investments along with their jobs. "Employees want portable pensions and some people are putting these with fund managers," he explains.

Many employers are also considering creating business reward according to business performance. Ben Wells, head of managing change and engagement at Buck Consultants, says: "Variable pay gives employers the ability to control cost and pay out reward when they can afford it. Something we saw happening with two or three clients even before the downturn, is offering pension contributions based on performance. It can even be extended to things such as the flexible benefits allowance. In this way, employers can engineer reward packages targeted at appreciating key performers."

However, there is a danger in cutting back the benefits budget too far. Paul Roberts, a healthcare consultant at IHC, is concerned by the ongoing course of employers to cut more and more on medical expenses bill through because it will result into cost-plus contracts which require employers to

assume the risk for claims incurred for a set period. Insurers levy an administration charge for handling these claims.

Ironically, given the poor performance of stock markets in the past few months, this may be the time ripe to encourage staff to invest in all-employee share schemes, because shares are of better value but also to promote a culture where everyone works to improve organisational show.

Conversely, organisations that support their employees for their development and treat them well will stand by the organization better during difficult times. Michael Wellin, director of consultancy Business Transformation and author of *Managing the psychological contract*, says: "Employees will think, 'this is a really good place to work'."

This applies even if redundancies are made, so long as any decisions are considered fair and employers maintain a constant dialogue with staff. Ceri Roderick, head of assessment at business psychologists Pearn Kandola, says: "Tell people what is going on and give them as much transparency as possible."

3. Research Methodology

3.1 Research Objective

1. To study the employee - employer relationship during economic slowdown.
2. To find out factors causing a behavioural change in the employee - employer relationship.
3. To study the impact of economic slowdown on organisations.

3.2 Research Method

The research is based on primary data collected from a sample of 60 people from the area of Senapati Bapat Road, Aundh, University Road and Kalyani Nagar of Pune city.

Data was collected through questionnaire and in

depth interview of the sample belonging to income groups ranging from 3 to 12 Lakh and age group ranging from 15 to 45 years. Secondary data in the form of articles published in books, journals, magazines, research papers, newspapers and reports was also referred.

The data has been collected from two categories of people in the organisation i.e., the management class and the employee class of different IT (information technology) companies in Pune area. The sample size was adequately represented by both the categories. Multiple choice and close-ended questions were used for collecting the responses. 5 point Likert scale was also adopted to measure the intensity of both categories towards certain factors constituting the work environment.

4. Findings, Data Analysis and Interpretation

Primary data has been analysed using **DESCRIPTIVE STATISTICS** method of statistical analysis. There were two types of questionnaires, one for the employers/management and the other one for employees. The analysis of responses so collected helped us gain an insight into their behaviour changes during economic slowdown. The data so collected has been represented in the following graphs, pie charts and percentage tables.

4.1 Employer's/Management's Attitude

The employers and the people working at managerial levels were given the questionnaire -I. Their responses gave us the idea of how do they deal with their employees and what are the different employment techniques adopted by them during economic slowdown. Following are the graphs, pie charts and percentage tables prepared on the basis of primary data.

The sample comprised of 23% of females and 77% of males showing that the strength of male managers

is significantly higher to that of female ones. The age group of people at managerial level was mainly observed to be ranging from 36 to 45 years with income mainly in the bracket of +12 lakh annual package.

4.1.1 Layoff – Retrenchment benefits

Simple Percentage Table-1

Attribute scale	Frequency	Percentage
Yes	7	23.33
No	13	43.33
May be	11	36.66
Total	30	100

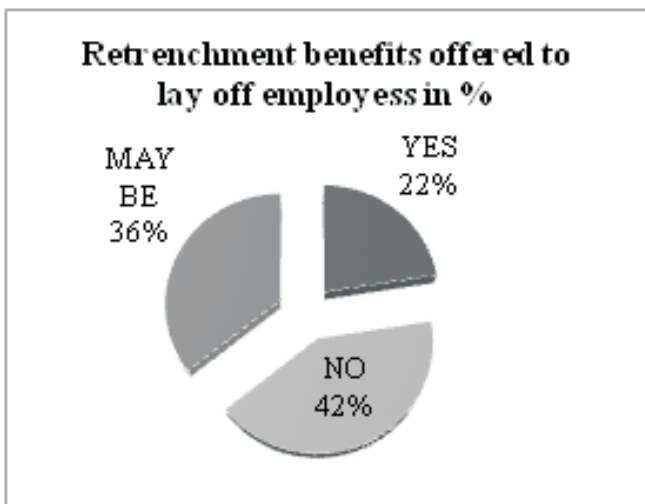


Figure 1

Figure 1 clearly reveals that the majority of management people said a clear 'NO' to retrenchment benefits given to the employees facing retrenchments. The pie chart indicates that despite majority of the management saying 'No' to the retrenchment benefits, there are many managers who believe that there 'May Be' certain retrenchment benefits given to the employees facing the layoff.

4.1.2 Cuts on Various Incentives or Perks

Simple Percentage Table-2

Attribute scale	Frequency	Percentage
Yes	13	43.33
No	8	26.66
May be	9	30
Total	30	100

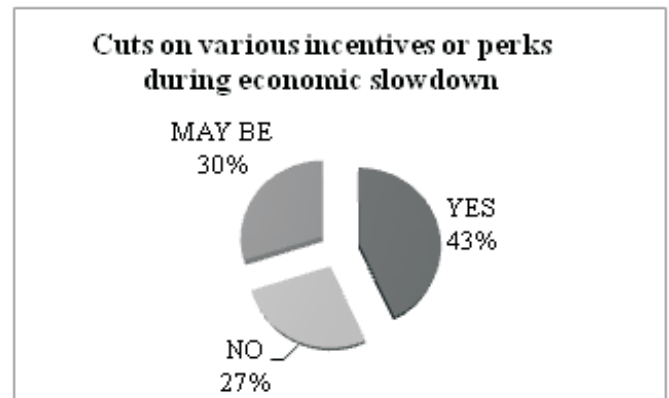


Figure 2

It is evident from the pie chart above that the majority of management does impose cuts on various incentives or perks during economic slowdown. However, there are few management people who may or may not impose cuts on various incentives or perks. They are in the 'May Be' category. There are fewer still that do not impose any cuts on various incentives or perks whatsoever.

4.1.3 Increase in Expectations of Output from the Employees

Simple Percentage Table-3

Attribute scale	Frequency	Percentage
Yes	11	36.66
No	10	33.33
May be	9	30
Total	30	100

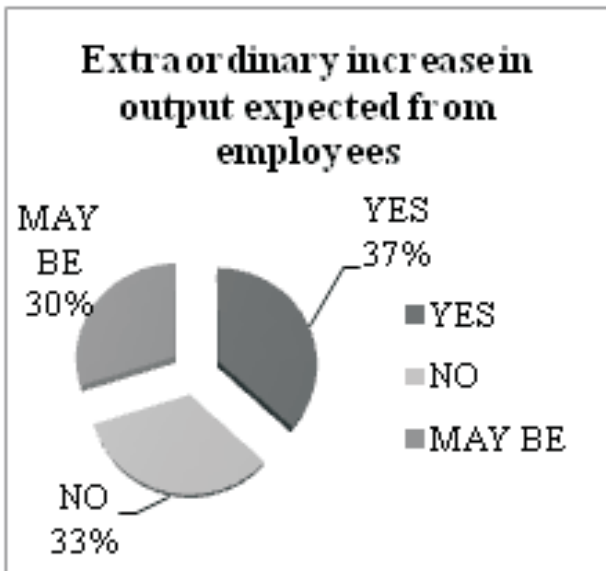


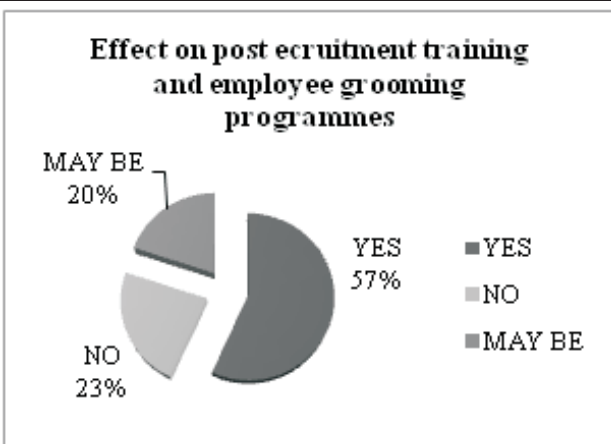
Figure 3

Maximum number of the management expects extraordinary increase in output from the employees during economic slowdown. However there are many who do not expect any increase in output from the employees and there are other few who may or may not expect an increase in output from the employees during economic slowdown.

4.1.4 Effect on Post Recruitment Trainings and Other Employee Grooming Programmes

Simple Percentage Table-4

Attribute scale	Frequency	Percentage
Yes	17	56.66
No	7	23.33
May be	6	20
Total	30	100



According to the data depicted above it is essentially clear that the post recruitment training and other employee grooming programmes get affected during economic slowdown.

4.1.5. Best Procedure for Retrenchment

Figure 5 has been arrived at on the basis of 5 point Likert scale with 1 representing the least preference and 5 showing the maximum preference towards the act which according to management people is the best way to handle the retrenchment issue. Figure 5 reveals that according to the majority the best way to handle a retrenchment issue varies from circumstances to circumstances, it's difficult to come up with set formulae. Adequate notice period along with adequate monetary compensation to the retrenching employee surfaced as the second best option by the sample.

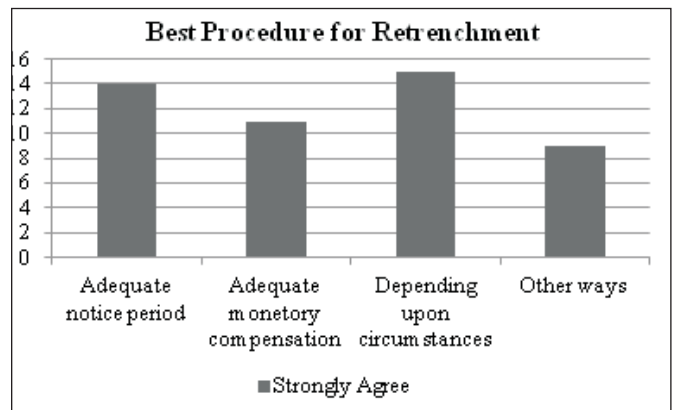


Figure 4

4.1.6 Economical Alternatives

Simple Percentage Table-5

Attribute scale	Frequency	Percentage
Yes	5	16.66
No	14	46.66
May be	11	36.66

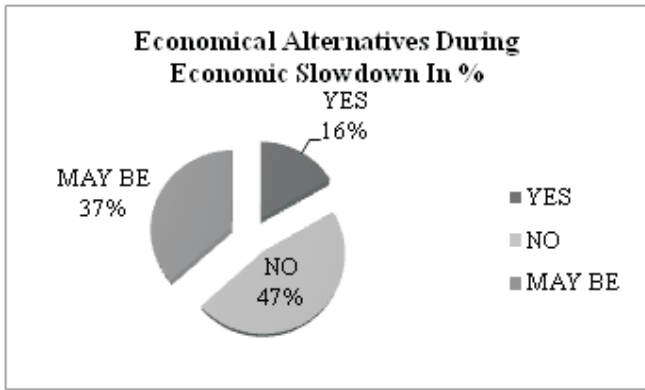


Figure 5

Evidently, majority of the management does not look out for economical alternatives during economic slowdown. However, there are some who may or may not look out for economical alternatives. Only a handful of the management feels the need to look out for economical alternatives such as outsourcing.

4.1.7 Effect on the Internal Work Environment

According to Figure 6, Answering to the question on their perception about the impact of slow down over internal environment the management/ employer felt that the working environment suffered the most due to deterioration of employee – employer

relationship. Even the management - employee trust & faith over each other got affected significantly.

4.2 Employee's Attitude

The lower level employees were also given the employee questionnaire. The responses given by them helped us understand the way the management deals with their employees and various employment techniques during economic slowdown and the employee's behaviour towards the management. Following are the graphs, pie charts and percentage tables prepared on the basis of the data collected.

From the survey analysis it was observed that the number of male employee is significantly higher than the female. The age group of the people at employee level majorly hovers around 15-26. The people at the employee level vary in the distribution of income. However, most of them fall in the 3-5 lakh income groups. The survey was conducted in the private sector i.e. the IT sector.

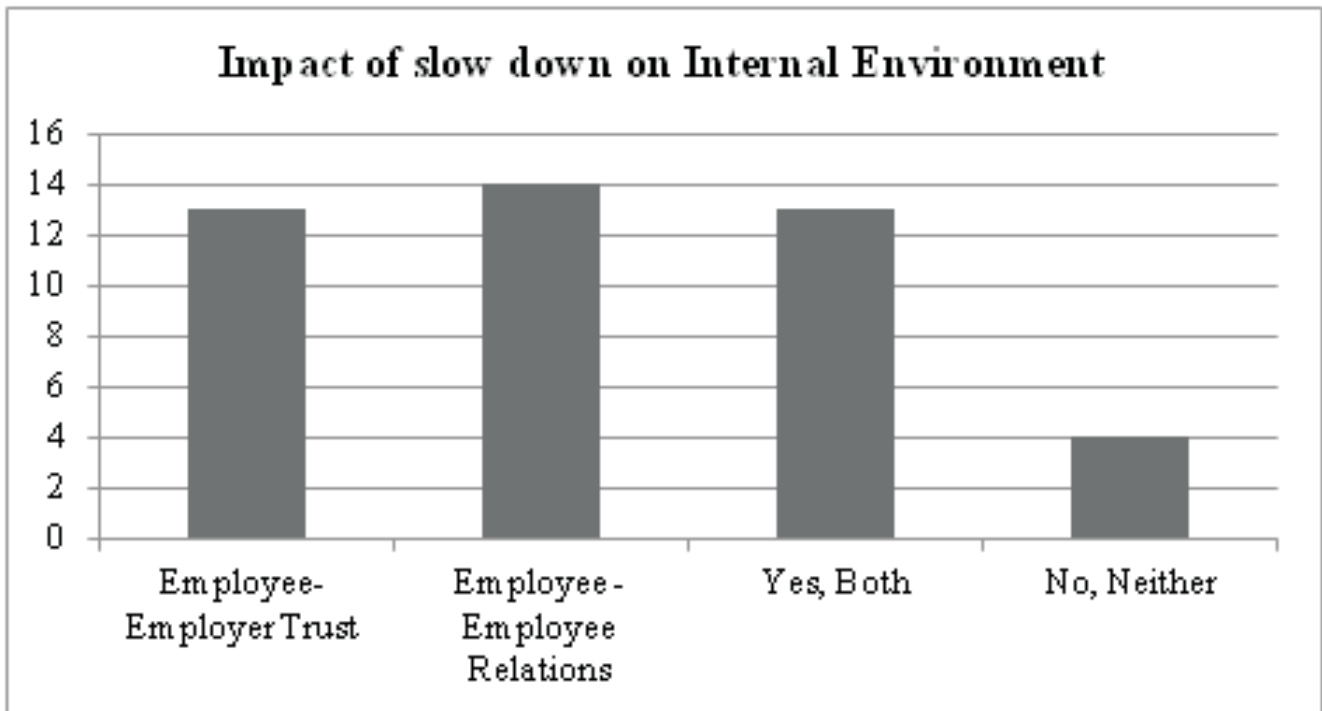


Figure 6

4.2.1 Effect of Economic Slowdown on Salaries

Simple Percentage Table-1

Attribute scale	Frequency	Percentage
Yes	5	16.66
No	25	83.33
Total	30	100

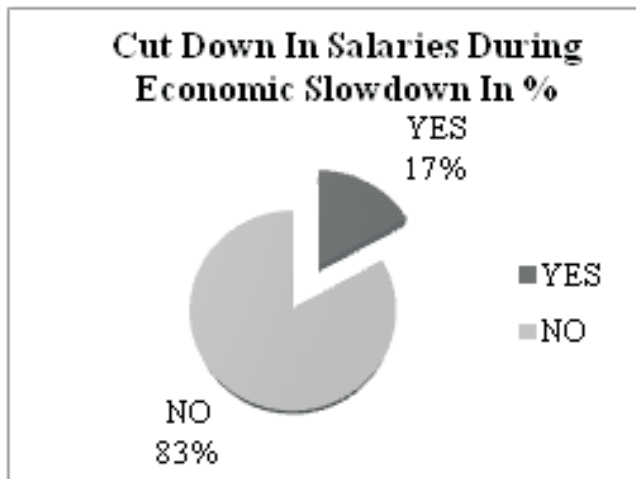


Figure 7

It is evident from the figure 8 that there is no effect on the salaries of the employees during this period. However, there are a small percentage of employees who believe that there is an effect of salaries cut down during the economic slowdown. It was noted that 7 % of the employees felt that the cut down on salaries were 10% or less, while 10 % felt that the cut down was between 11 to 30 %.

4.2.2 Fear of Being Fired

Simple Percentage Table-2

Attribute scale	Frequency	Percentage
Yes	13	43.33
No	13	43.33
May be	4	13.33
Total	30	100

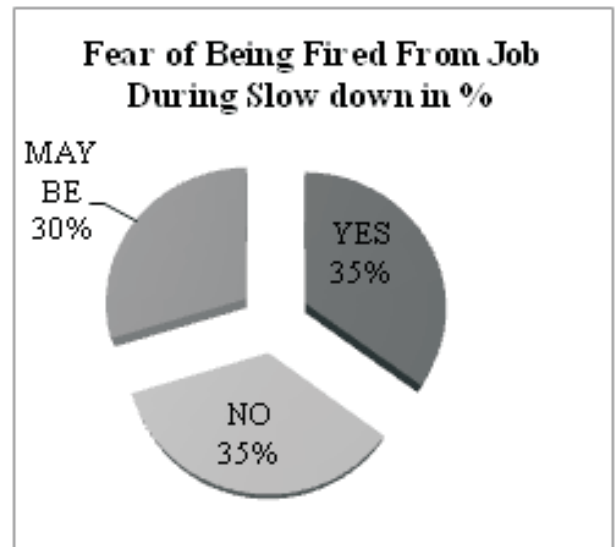


Figure 8

According to the data depicted above, it is evident that the percentage of employees believing this aspect between 'Yes' or 'No' is the same followed by 'may be'. This clearly shows that there may or may not be fear among employees of being fired from the job during this situation.

4.2.3 Other Job Opportunities

Simple Percentage Table-3

Attribute scale	Frequency	Percentage
Yes	9	30
No	11	56.66
May be	4	13.33
Total	30	100

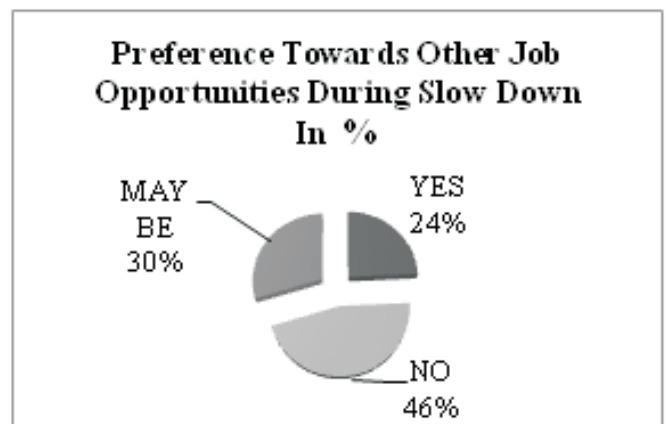


Figure 9

Figure 10 represents that majority of the employees do not give preference to look out for other job opportunities during this period. A considerable number of employees have shown their concern on other job opportunities by way of 'Yes' or 'May Be'.

4.2.4 Increase in Work Load

Simple Percentage Table-4

Attribute Scale	Frequency	Percentage
Yes	20	66.66
No	10	33.33
Total	30	100

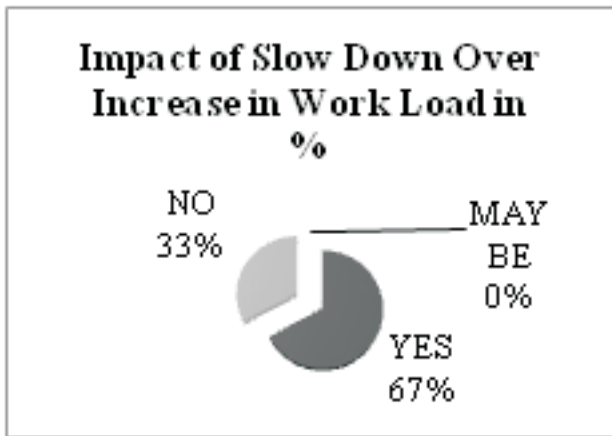


Figure 10

According to Figure 11, it was found that majority of the employees experience an increase in work load during this situation. Very few percentages of employees do not experience this change.

4.2.5 Support of Management

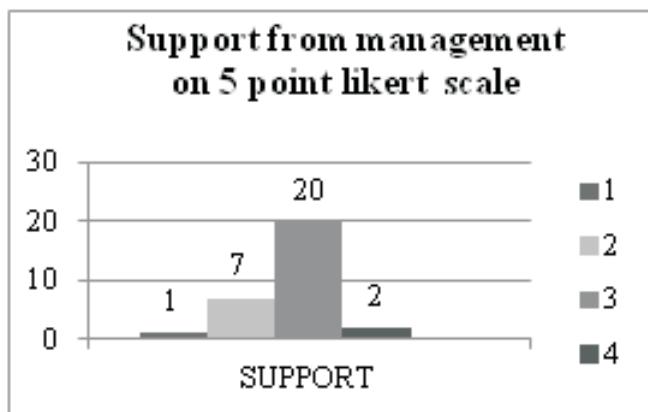


Figure 11

The results for the above mentioned graph has been arrived on the basis of 5 point Likert scale with 1 being the lowest and 5 being the highest. It was observed that close to 70 % of the employees experienced support from the management.

4.2.6 Effect on Career Growth

Simple Percentage Table-5

Attribute scale	Frequency	Percentage
Yes	20	66.66
No	10	33.33
Total	30	100

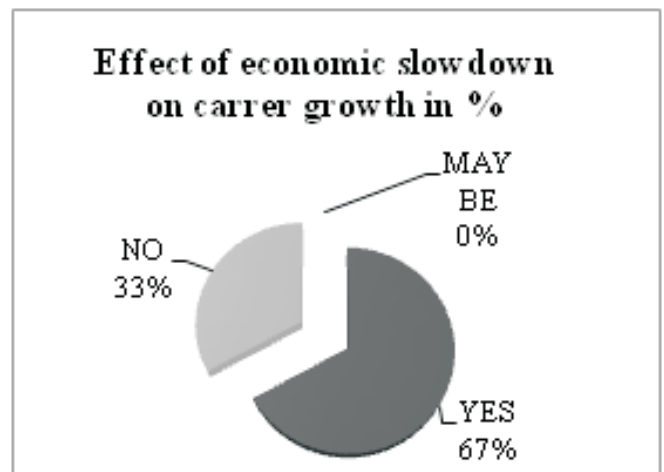


Figure 12

From the above pie chart it is clear that economic slowdown does affect the career growth of employees to a large extent. There are though few in numbers who do not experience any such downfall.

4.2.7 Effect on Employee to Employee Relationship

Simple Percentage Table-6

Attribute scale	Frequency	Percentage
Yes	14	46.66
No	15	50
May be	1	3.33
Total	30	100

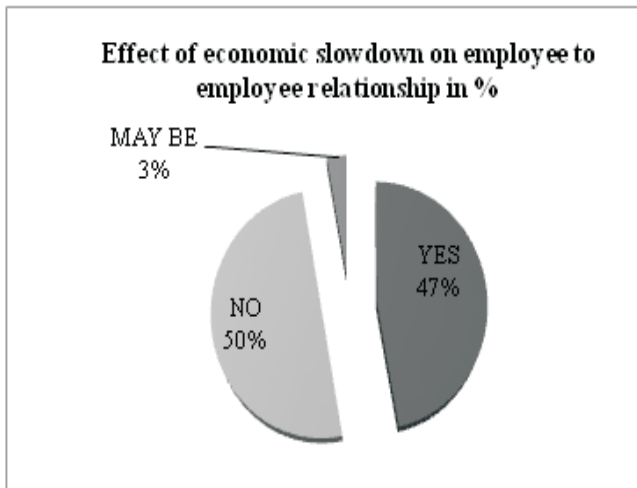


Figure 12

From the above data, it can be deduced that there is a very minor difference between employees who believe that economic slowdown does affect employee to employee relationship from those who do not. The third aspect of 'May Be' is clearly very low on this aspect.

4.2.8 Measures taken during economic slowdown

The results for the above mentioned graph has been arrived on the basis of 5 point 'Likert Scale' with 1 being the lowest and 5 being the highest. For every measure, a scale of 1 to 5 was drawn and the people from the employee level were asked to rate what measures they took during this period. It was observed that the employees preferred the increase in level of efficiency followed by extra working hours. Employees developed competitive attitude with each other and also tried to maintain a good rapport with the management.

4.2.9 Resignation due to increased Work Load

Simple Percentage Table-1

Attribute scale	Frequency	Percentage
Yes	2	6.66
No	22	73.33
May be	6	20
Total	30	100

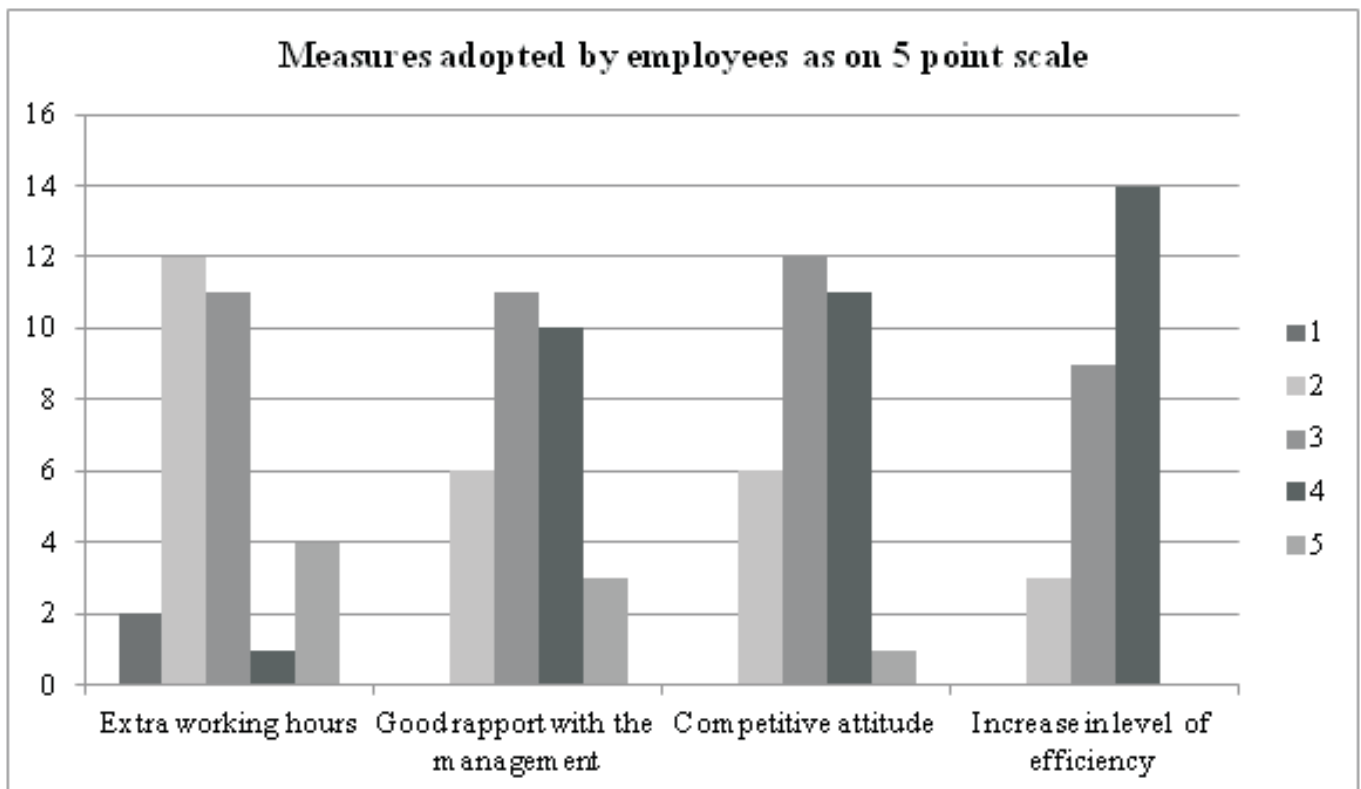


Figure 13

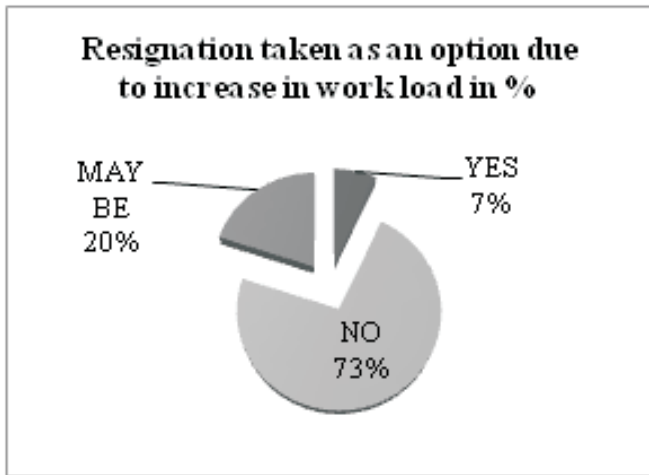


Figure 14

From the data available, it was found that majority of the employees do not consider resignation as an alternative due to increase in work load during economic slowdown. However, 7 % did consider it as an option.

4.2.10 Effect on Internal Work Environment

aspect followed by employee to employee relationship which is affected the least according to the employees during economic slowdown.

The Proportion of male employee as well as employer was higher than the females in each of the categories. The strength of male employers was 76.66% where as that of employees was 66.66% respectively. Females in both the categories were 23.33% and 33.33% respectively. It was observed that 43.33% of the management/ employers did not vote for retrenchment benefits to the employees. The analysis and interpretation of the data revealed that the economic slowdown led to heavy cost cutting over the incentives and perks. Due to economic pressure the employers also wanted to extract high returns through minimum input and hence increasing the workloads of the employees.

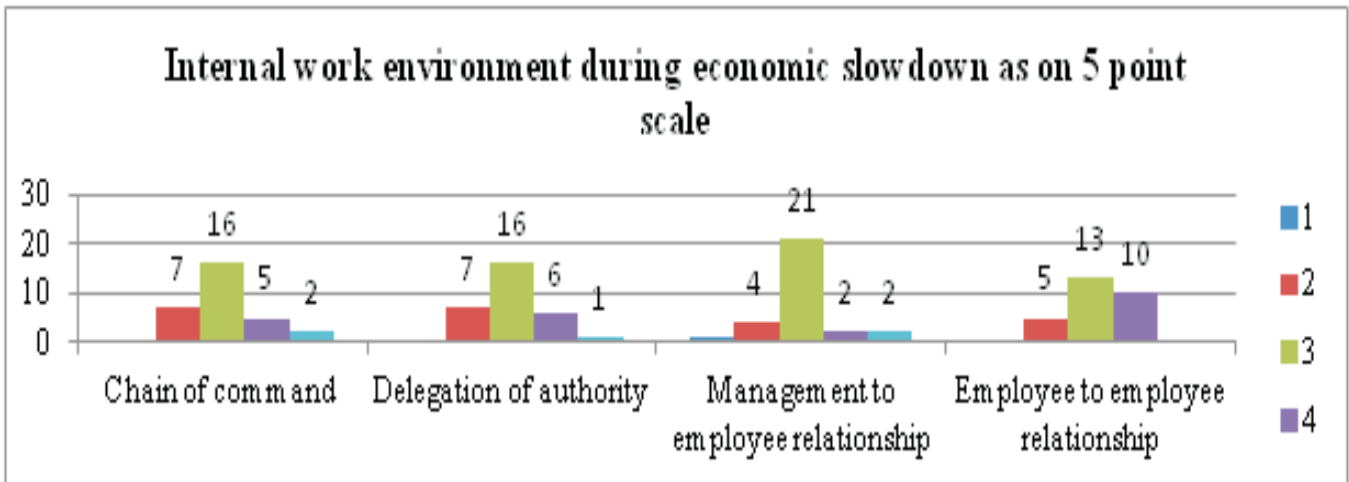


Figure 15

The results for the above mentioned graph has been arrived at on the basis of 5 point Likert scale with 1 being the lowest and 5 being the highest. For each factor a scale of 1 to 5 was drawn and the employees were asked to rate the internal work environment. From the above graph it can be deduced that economic slowdown affects the management to employee relationship the most. Chain of command and delegation of authority stands equal on this

It was observed that the post recruitment training and other employee grooming & development programmes also suffered during economic slowdown. However, it has come to the notice that organisations do look at outsourcing as an alternative to cost cutting. The survey conducted in the city of Pune revealed that employers were in a spree to cut down cost but the salaries of their ace employees were not affected at all. However, the

threat of losing job always was always perceived as a major challenge by every employee.

Despite the constant fear of being fired, surprisingly the survey revealed that no one was very keen to look out for new job opportunities rather they said that they have started saving the money by cutting down their unnecessary expenditures to safe guard their future. The fear that every organisation is going to meet with the same fate may be the reason for this attitude. Where on one hand the economic slowdown led to increased work load for every employee on the other hand the career growth of employees did not grow proportionately. This indirect proportional relationship between the performance and the promotion directly influenced the “employee-employer” and the “employee- employee relationship”. In fact this run for survival of the fittest led people to consider their team members more as rivals than their co-workers, thus defeating the basic spirit of camaraderie and the synergistic effect. The data indicates that the support and motivation of the management during economic slowdown towards the employees continued to be high.

4.3 Discussion

4.3.1 Economic Slowdown and the Management/ Employer's behaviour

Survey revealed that employer's while going for cost cutting kept employee's concern as the first priority. They offered adequate notice period to the employees before making them quit the job. The study also revealed that there was as such no fix rule regarding handling of retrenchment. Depending upon the circumstances, the employer either chose to offer the adequate monetary compensation or allowed a notice period.

4.3.2 Internal Environment

The internal environment of an organisation

constituted by its employees and employers and their respective relationships got seriously affected. It was not just the employee- employer relationship but the employee- employee relationship too that was influenced by the economic slowdown.

4.3.3 Employee's Behaviour

As revealed by the survey, the employees do not perceive changing job as a good option, they rather prefer to strengthen their position in their respective jobs by adopting measures such as improving level of efficiency and putting extra working hours. This attitude is in fact their way of responding to the competition from fellow men and maintaining a good rapport with the management.

5.1 Conclusion

Cordial employee-employer relationship is an essential ingredient bringing prosperity in the organisation. Mutual trust, positive motivation and every able support from either side play a vital role in it. The external environmental factors like recession or slowdown can simply shatter the harmonious internal environment. People start eyeing fellow man as a rival than as a support.

The survey finally concludes that transparency, notifying targets in advance and giving legitimate time to achieve goals are important ways to handle pressure in such circumstances. There are no general salary cuts as such but extra perks and incentives are compromised to accommodate cost effectiveness.

Generally the employees, according to the survey are very well treated but no fresh recruitments take place. The employee and customer centric business is the major reason for this trend.

6.1 Recommendations

We arrived at the following recommendations on the basis of interpretation of data collected.



1. Dignified retrenchment benefits should be offered to the employees laid off, since it is difficult to find alternative job during economic slowdown.
2. Cutting down salary is also not recommended as it might demotivate the employee morale. To handle the cost burden slashing of additional benefits and not the salary could be an option. For better and effective output in service and winning employee loyalty, the management should make sure that there is an environment of stability so that they have no fear of removal from the job and thus could give their 100 per cent.
3. The management should not over burden the employees with higher work expectations as it might lead to stress and affect the employee morale & dedication towards the work and organization. A healthy work environment could be a better answer to deal with it as it strengthens the bond between employees - employer relationships.
4. Post recruitment trainings and employee grooming programmes are very essential not only for the employee but also for the organization; as such trainings help the employees to deliver better service to the organization through their refined skills in an effective manner.
5. Support and motivation play an important role during economic meltdown to keep things rolling in the worst of circumstances. We observed that the management was very supportive during economic meltdown but motivation was relatively lacking, hence providing an environment of motivation is very essential at all levels of work. The employers should concentrate more on positive motivators (Herzberg's motivators) than on the Herzberg's hygiene factors.
6. The economic slowdown is bound to affect the employee –employee as well as the employee-employer relationship. It's very important to develop the feeling of trust and faith over each other, so that the members look at each other as support systems rather than competitors leading to synergistic output than the much abused lopsided productivity.

Limitations and Future Scope

It was limited to a small, convenience sample size. The use of a larger sample and a longitudinal rather than a cross-sectional design would strengthen the further studies. It was limited to IT (information technology) sector and therefore, many companies had policies of not filling such questionnaires. Some employees hesitated to give the actual situation as they feared that management might take an action against them. Results were based on observation over the study period, which may vary over different periods of time. The approach towards the management and employees became difficult as the questions were confidential.

Since, there has not been much of research work done in this area; this research paper will help gain an insight on this aspect of economic slowdown.

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