# Extension Material 10.1

## Competing interests

Despite the frequently used aphorism that 'people are an organization's most important asset', the reality is that employees are both an asset and a cost. If an organization experiences financial change, economic downturn, and budgetary pressure it is inevitable that, sooner or later, reductions in the cost and numbers of employees will have to be made. As Holbeche (2002: 3) argues, in the context of the primacy of stakeholder interests and the ability to maintain employment levels, even in this age of information, when the value of intellectual capital should be more apparent, business priorities, shareholder returns, and bottom-line considerations take precedence over employee concerns. It is the human resource planning function within HR that is most closely associated with the need to find, and keep, the right balance between the changing demand for labour and a reliable source of supply. Ultimately, those charged with managing organizations give priority to the survival and financial stability of the organization in question. This does not necessarily preclude making a genuine commitment to considering the needs and interests of the employees wherever possible, but if decisions have to be made to cut jobs and to reduce employee numbers to preserve the long-term employment prospects of others, there is little to be gained from delaying or avoiding the issue. There is, however, a degree of choice in the way in which job cuts and employment losses are implemented, and making the right choice can minimize the consequences of job losses, preserve the reputation of the employer, and maintain good employee relations.

HRM Insight 10.4 offers an insight into how HR planning decisions are influenced by changing product market conditions and the way in which the welfare of those employees affected by job losses can be considered in the implementation of such changes.

**HRM INSIGHT 10.4 The Czech manufacturing company**

A Czech manufacturing company employed approximately 250 people and was located in a provincial town in the east of the country. Its main product line involved the manufacturing of highly sophisticated and complex computer control systems, used in process manufacturing industries. Each cost around £1 million (at today's prices), and these were sold mainly in the US and European markets. The company's MD explained that changes in demand for the product had major implications for the company in relation to income, profits, and the ability to maintain stable levels of employment. An average of fifteen of these control systems were sold annually. When asked how he responded to the failure to meet projected sales targets, he made it clear that, while part of his company's philosophy was to ensure stable employment, it was not always possible to do this while maintaining the financial stability of the company. Losing even one order meant that a certain number of manufacturing operatives had to be released, but the really important point was that these people were re-employed when demand picked up. On a tour around the factory, he pointed out many members of staff who had lost their jobs and had been re-employed on more than one occasion. The company kept in contact with staff who had been made redundant and, while some found alternative jobs, some experienced short-term unemployment. Many of those that had found other work, as well as those who remained unemployed, were prepared to return to the company despite knowing that future employment could not be guaranteed.

When demand for the company's products exceeded capacity, the company could call upon such experienced workers to return and take up their old jobs. Supply strategies for the longer term included close liaison with the local technical college, involving student visits to the factory, and managers giving pre-graduation talks to the students. An intensive programme of training also ensured that existing employees, through constant reskilling, became more productive and flexible, and one of the defining features of the management's employment strategy was investment in its employees. The ability to attract new staff and those who had experienced the loss of their jobs was not the outcome of any technical planning process, but reflected a much more holistic approach to employing and managing people. The distinctive features of this approach are:

- A system of communication and consultation that involved all employees and ensured that staff knew the reasons behind employment decisions.
- A united senior management team, which realized that securing the long-term interests of the company and the majority of its employees sometimes involved difficult decisions that necessitated job reductions.
- A unionized workforce that, while engaged in negotiations over wages and conditions, realized that its own interests and those of the management were essentially the same in relation to the long-term future of the company.
- A workforce that trusted the MD and his senior management team to act in its long-term best interests.
- A distinctive philosophy of management that saw employees as central to the success and future of the company, and which required managers to reflect this commitment as far as possible in the way in which employees were treated.

### Questions

1. Where does this kind of management philosophy come from and why is it important?
2. What other responses to falling demand for labour might UK companies make to minimize the effects of job losses?
3. What labour supply strategies might UK companies make in response to increases and decreases in demand for labour?
4. What advantages would management expect to experience as a result of offering secure employment prospects within realistic limits?

# Postscript

From a student and perhaps more importantly a practitioner perspective, it is important to try to establish relationships between what 'is done' in HR, or more widely how organizations manage their people and outcomes in terms of the criteria used to ensure success. These can be in relation to employee satisfaction, commitment, and performance through to indicators of organizational success such as growth, competitiveness, and profitability. The Czech manufacturing case study was written in 2007 and was based on conversations with senior management of the company in 2000. The company was originally formed in 1992 by a management buyout during the evolution from Communism to a democratic capitalist society. Originally called TESLA, it is now known as Lux and has established an international reputation for technical excellence and reliability. It frequently wins awards for its technical excellence and export achievements, and has not only grown in size but operates joint ventures with other companies outside the Czech Republic. By any criteria, it is successful and much of its success can be attributed to its values and beliefs about doing business and managing people (see http://www.lux-group.cz).

## REFERENCE

Holbeche, L. (2002) *Aligning Human Resources and Business Strategy*, Butterworth-Heinemann.