

LESSONS FROM THE CRISIS: INTRODUCING RESILIENT HR PRACTICES IN ALBANIA

Iva Veshi¹

ABSTRACT

Most important contribution of an organization in society is job creation which is directly related with development of human capital, improvement of living standards and advancement of community and society in general. Nonetheless, the economic crisis of 2009 demonstrated that people are an organization's most valued asset until organization is faced with economic crisis. This crisis shattered strongly the labor market causing high rates of unemployment, questioning many HRM policies which were unable to stand to economic downturn and erasing efforts done toward lower unemployment rates until 2008.

Unemployment has been a challenge for the Balkans in general and Albania in particular before and after the economic crisis of 2009. The aim of this paper is to draw lessons from the best practices of successful companies regarding HRM during the crisis and analyze how to implement these practices in a country where the unemployment is an ongoing crisis.

Case study method was chosen as a way to provide a deeper insight of the subject in real life context. Automotive industry provided a pertinent context to conduct the study as a major economic force worldwide, severely hit by the crisis. Within the sector, Toyota and Volvo were selected as companies well-known for their HRM policies.

Added value of this work consists in two main contributions. First, it analyses how to manage main challenges of employees management in turbulent times, which is compatible with Albanian business unstable environment. Second, based on analysis of these changes, it proposes a way to build resilience which is a relatively new concept in business world but is a necessity for companies to adjust positively to future unfavorable circumstances without experiencing trauma.

Keywords: *Human Resource Management, employees, crises, resilience*

JEL Classification: *J5, M5, M1, M14*

1. Introduction

HRM is receiving increasing attention from organizations today as businesses are being challenged like never before to address concerns of various stakeholders. Organizations' ability to continue operating efficiently has become strongly related with their performance in society and impact on environment (ISO 26000, 2010). Beyond the definition as a process of hiring and

¹ MSc. Economic Faculty, Business Department, External Lecturer, Tirana University, Albania, Email: ivaveshi@hotmail.com.

developing employees to add value to the organization², HRM rises on the philosophy of engaging and committing employees in order to give them power to exercise influence (Hendry,2000).

Concentration of considerable economic and political power in hands of large companies during last two decades, constituted a major risk for abuse and irresponsible behavior(Sun, Stewart and Pollard 2010). The global economic crisis of 2009 is the most recent event demonstrating how problems started in subprime mortgage markets in US in 2007, evolved in global crisis with major impacts for whole society (Kence and Dibooglu, 2009).

Although consequences of economic crisis were unpredictable, its occurrence was expected by most academic economists (Kence and Dibooglu, 2009). Irrational behavior, excess executive remuneration, market profit greed, companies' frauds, abuse of power and other social irresponsible behaviors have been present in media or academics debates during all this period but still economies failed to prevent a global crisis (Blundell-Wignall and Atkinson, 2009). As a consequence, global unemployment reached fifteen million more unemployed than before the crisis (Davies, 2010, p.1).

Most companies failed to manage the global crisis. Major layoffs, bankruptcies a general lack of trust in business from society, were all impacts of mismanagement of consequences from economic crisis.

In order to avoid drastic changes, resilience is put forward as away to handle crisis. Resilience is not about responding to one time crisis but it has to be built in order that the company gains the ability not only to survive under difficult circumstances but to be prepared to find even there opportunities and advantages (Hamel and Valikangas, 2003).

This study aims to investigate impacts of crisis on HRM policy. It starts by analyzing consequences of crisis in the region of Balkans in general and Albania in particular. Next, through literature review it explores the way to resilience as a demand for sustainable development. Then a case study research on two companies is conducted to investigate impacts in real-life context and analyze them against implications raised in theoretical framework on resilience. Third objective is to draw lessons of best practices of these companies toward challenges in HRM policies as answers to the challenges of HRM in Albanian companies. For this purpose an explanatory analysis is used based on theoretical propositions.

2. The economic crisis in the region of Balkans

Until mid-2008, SEE economies continued to grow steadily. The crisis that had begun in the rest of the world, seemed not to affect SEE Countries. Foreign direct investments (FDI) continued in the region reaching new records while banks tried to increase their market share. During the first eight months of 2008 there was the impression that SEE would decouple from the crisis. In fact the main macroeconomic challenge was how to deal with inflation (Sanfey, 2011).

Nonetheless in September 2008, the situation changed. The default of Lehman Brothers caused an upheaval in world economy due to considerable decrease in production which caused an increase in unemployment. First, the adverse effects of the crisis appeared in the US and western EU countries, then in transition and developing countries. It should be pointed out that such effects in these countries were heterogeneous depending on a country's own resources,

² <http://www.businessdictionary.com/definition/human-resource-management-HRM.html>

banking system, fiscal system, dependence on international trade and so on (Marrelli et al., 2012).

In Albania the impact of the crisis came later and partially because Albania it is the only SEE country which did not have a decline in annual GDP during 2007-2012 period of time. Nonetheless, long-term challenges and issues related to public debt, weak tax collection abilities, increased trade deficits, diminished credit, rose even stronger during 2008-2012 (Barttlet and Prica, 2011) because Albania has a great level of dependency on international trade. Actually the growth Albania experienced before 2008 was also influenced by the performance of the international markets, particularly of Italy and Greece . Being that these markets were profoundly shattered by last economic crisis, there is little possibility for Albania to reach the performance levels before crisis.

One of the greatest social costs of this crisis globally was unemployment. In Albania, the labor market almost resisting to any reform, remains poorly developed with high levels of structural unemployment, informality, low growth rates (Barttlet and Prica, 2011). According to Marrelli et al. (2012) there were two main types of adjustments of labor markets in response to this crisis:

- The first type of adjustment refers to countries such as United States, Ireland, Baltic States, Spain where employment was reduced rapidly and broadly in order to maintain labor productivity at the cost of high unemployment.
- The second type of adjustment refers to countries such as Germany, Japan, Denmark, the Netherlands which had reduced effects on labor market due to policy measures like working hours adjustments, reduced salaries etc, at the benefit of lower unemployment rates.

Based on this classification and the continuous struggle with unemployment rates, Albania is part of the first type of adjustment. Although there are not sufficient data to prove the impact of this crisis specifically in labor market, unemployment is a persistent crisis which needs to be addressed strategically. This strategic response should begin from the private companies which are the greatest hiring source in Albania. According to a study by Hackaj (2015), the majority of the companies active in Albania, approx 83% are small companies with 1-4 employees, hiring in total 34.5% of total labor force and 1% are big companies with over 80 employees hiring in total 31.5 % of the labor force. Therefore, taking into considerations the response to HRM challenges during economic downturn experienced by multinational companies like Toyota and Volvo, this article tries to give some strategic suggestions for sustainable employee's management policies which are the stepping stone toward a resilient enterprise.

3. Conceptualizing the way to resilience.

The term resilience has different meanings according to different academic disciplines. It derives from Latin word *resilio* which means "to jump back". Resilience is seen as a desirable characteristic of natural and human systems as it contributes to sustainability and reduces vulnerability although the way to it is still lacking an appropriate guidance (Klein, Nicholls and Thomalla, 2003). In business context, enterprise resilience is associated with the capability of an enterprise to survive, adapt and grow while facing turbulent change. A systemic approach is needed since industrial, social and ecological systems are closely linked, in order for managers to make the right decisions (Fiksel, 2006).

Resilience implies capability to be robust under conditions of stress and change (Coutu, 2002). The way to resilience is difficult because it requires changes in culture and strategy (Valikangas, 2004). There are two different ways of conceptualizing resilience depending on the assumptions it develops: when underlying assumption is stability and the speed with which we return to it and when underlying assumption is instability and the tendency to evolve to new states. Among all different definitions of resilience there are always two main characteristics included: ability to resist to an external change and flexibility to bounce back (McDaniels et al., 2008).

Today as we are trying to get out of the greatest economic crisis since 1930's Great Depression, resilience has another meaning and a new level of prominence because world is becoming more turbulent than organizations are becoming resilient (Hamel and Valikangas, 2003). In the past executives never had to question business models. Companies had to get better but rarely did they have to get different. Today's competitive market demands for companies to be different in order to remain competitive. Success of companies hangs on resilience- the ability to dynamically reinvent business models and strategies as circumstances change (Hamel and Valikangas, 2003).

Strategic resilience emerges as a way of not only responding to one time crisis but adjusting to trends that can diminish earning potential of the business. It is about developing the capacity to change before the need for change becomes critical (Hamel and Valikangas, 2003). It can begin with creating and maintaining cognitive, relational and structural capabilities flexible enough to deal successfully with a dynamic environment (Donnellan et al., 2006).

Case study will show how changes fueled by global crisis can guide and enhance building company's capacity for resilience in real life context.

4. Profile of Toyota Motor Company

Toyota today is one of the world's largest manufacturer of automobiles both in unit sales and net sales. It produces 5.5 million vehicles per year (*Toyota history: corporate and automotive*). In 2001, Toyota adopted the Code of Conduct known as "Toyota Way 2001" as a guideline for all employees which emphasizes quality in production and implementation of company's philosophy at each step of work process (Heller and Darling, 2011).

Until the end of 2007 Toyota was a dominant car company globally. It had been profitable for 50 years in a row and it had turned into a benchmark against which, every other company compared itself. Its growth and profitability were driven by high quality of its products and customer satisfaction. Toyota was also a model for world-class manufacturing. Its production efficiency based on just-in-time inventory system defined Toyota's financial strength (Liker and Ogden, 2011).

Still during past decade alone the company had enhanced its bottom line by building new factories and by saving in its production process. In 2008 Toyota's president announced that the company needed to improve its management system which had been undergoing problems due to the growth of the company (Pride, Hughes and Kapoor, 2011). Even though, in 2009 a new wave of massive product recall began in US and in 2010 it spread in Europe and in the rest of the world.

4.1. Employees management during crisis

Wilkinson, Hill and Gollan (2001) argue that human resources need to be integrated for long-term sustainable business performance. In executive summary of 2008, Toyota emphasizes ensuring stable employment, as a key objective of Toyota in order to maintain trust of employees and enhance motivation at work. In order to apply with this basic responsibility toward human capital during economic downturn, Toyota applied several measures in human resource management (Toyota Europe Sustainability Report, 2009):

- No overtime except emergency situations.
- Collective shut downs aligned to site closures.
- Unpaid holidays for all grades
- Promotion of part-time, credit-time solutions and parental leave.
- Moving employees from one Toyota company to the other like the team member of Toyota Motor in Poland moved to Toyota Peugeot Citroen Automobile in Czech Republic.
- Shifting positions like Toyota Motor Manufacturing UK employees went to work for Toyota Parts Center Europe in Belgium changing from manufacturing activity to after sales operations.
- Work sharing to cover nonproduction days and decrease labor costs.
- Head office in Belgium agreed to 16 unpaid days.
- Hiring freeze.
- Voluntary resignation program.

Toyota's recall crisis of 2009-2010 reinforced financial issues. Double effects led to the closure of one production line and 750 layoffs in UK (Reed, 2010) as well as reduction of 600 employees in its headcount which represents great inefficiencies for the society where the company operates.

In this situation efforts of HRM policy were concentrated in intensive communication with employees and unions to explain the situation of the company and announcement of workforce reduction (Toyota European Sustainability Reports, 2010).

In the context to see opportunity even in challenging environment, Toyota focused at improving work processes in the long run through better workload management and more efficient use of work time. Working under constriction of reduced working hours and less workforce stimulated managers to find alternative ways to achieve objectives (Toyota European Sustainability Reports, 2011).

Toyota didn't succeed to adapt to economic pressure by maintaining all its employees. Due to reinforced consequences of its double crisis, engagement with employees in report of 2011 still focuses on managing redundancies, more efficient work operations and two-way communication which is very different from nurturing employees engagement as a competitive advantage to contribute to the achievement of sustainable goals of the company (Towmey, 2006).

5. Brief profile of Volvo company

Volvo is best known for its high safety standards. Company's philosophy includes basic values that guide it in the way toward profitability and meeting customer's demands. Its fundamental value of safety still differentiates Volvo in the automotive world as a company which focuses on human life value. Its concept of safety is threefold involving not only safety of the passenger of the car but also passengers in other cars and pedestrians ([Volvo](#) Corporate Report with Responsibility, 2008/09).

There are two main pyramids which represent how company links its values with business goals: the brand pyramid and the work culture pyramid.

In the work culture pyramid the foundation for success lies in excellence of execution which includes premium quality, involvement and responsibility. Values of confidence, degree and speed of development, strength of relationships within company are included in the middle level of the pyramid and are the core values through which Volvo tries to stand out in comparison to competitors. At the top of the pyramid is “the power of we” which is a result of cooperation based in integrity, courage and diversity of thought and is unique to the company.

5.1. Employees management during crisis

Volvo’s objective in labor market, to be an attractive employer, has been promoted through ensuring equal opportunities, fairness and diversity in workplace . Areas of concern in company’s responsibility and goal in human resource management prior to 2008, are mostly related to health and safety, stimulating work and continuous competence improvement. Values, principles and culture of the company are included in “The Volvo Way”, which guides daily operations of managers and employees (Volvo Group’s Sustainability Report, 2007).

Economic crisis impacted organizational framework of employees management in 2008, by emphasizing cost of human resources when faced with financial constraints. From mid 2008 until 2009, Volvo laid off 18000 employees globally. Even though, redundancies were the ultimate choice. Several measures were taken in advance such as utilization of flexible time banks, reduction of salaries, bonus retention, elimination of overtime hours, reduction of working days. Company increased collaboration with Labor Unions and governments to mitigate the risk of downturn and discuss possible variants to avoid lay off (Volvo Group Sustainability Report 2008, 2009). Crisis emphasized the necessity to find ways in order not to treat human labor as production factor subject to the same forces in marketplace, but to consider the inherent vulnerability of workers by mitigating adverse impacts of crisis jointly with workforce representatives (ISO 26000, 2010).

In the face of crisis evolution, Volvo was forced to take drastic measures in reduction of workforce to adjust to considerably lower cost levels required (Volvo Group Sustainability Report, 2009). Managing this situation required effective leadership communication. All managers at Volvo had as primary task during crisis to inform their employees about the situation as well as to listen and answer to their questions. They received training and assistance in handling in best possible way the situation (Volvo Group Sustainability Report, 2009). Mrs. Toro outlined in her interview:

“...during crisis there was an intensive communication to update people continuously about the situation of the company and the layoff. More important we communicated such decision as painful for the company and people understood. We used every internal channel to communicate, as extremely important in times of crisis.”

A strong human resource management system is defined by how well employees understand messages sent by management, behaviors that are expected individually and collectively and what the outcomes will be (Haggerty and Wright, 2010, p.10). Volvo’s HRM systems proved to be strong enough in communicating effectively during crisis, to enable the company reinstate most of its employees in 2010.

In 2010 report Volvo relates way to achieve competitive advantage and success with investing in employees. The company acknowledges that to achieve its goals and implement its strategy, it

needs motivated employees, willing to take active part in the Group's development. Employees engagement emerged high in Volvo agenda after crisis. Annual survey changed from Employees Attitude Survey into Employees Engagement Survey. Head of Volvo Group Corporate Human Resources makes a direct relation between employees engagement and business outcome and relates engagement with organizational capacity to learn and grow (Volvo Sustainability Report, 2011).

Strategic focus in employees management is oriented toward development of strategic competences, inclusive leadership and organizational agility (Volvo Group Sustainability Report, 2011). Developing strategic competences in employees goes beyond employees motivation to enabling human capital contribution to build company's competitive performance. Inclusive leadership is oriented into building a collaborative relationship among managers and employees where managers are team players and concerned in reaching organization's rather than ego-driven (Sugerman, Scullard and Wilhelm, 2011). Both these capacities tend to reduce hierarchical leadership and increase self-organization of employees around company's goals for which they feel accountable and in control.

Developing organizational agility refers to the capacity to respond to an adaptive challenge, develop necessary resources to change at the needed moment (Clark, 2010). This constitutes an essential capability for resilient human resource management which addresses necessity to manage unexpected changes successfully. Volvo's new approach to HRM is in compliance with theories of Weybrecht (2010), Loher and Schwartz (2003), Towmey (2006) on employee's engagement as a way to sustainable development and toward a more ethical and accountable working environment. Achieving sustainability goals through engaged employees emerged as new requirement after crisis and Volvo has already integrated it as main objective to guide HRM policy

6. Conclusions

As the world is becoming turbulent faster than organizations are becoming resilient (Hamel & Valikangas, 2003), there is need to renew business models in response to current dilemmas and demands for sustainable development. This paper aimed to explore changes fueled by crisis on *HRM* policy and their implications to build capacity for resilience within a company in order to enable it to respond positively to potential threats in the future and emerge stronger.

The study was raised on two cases, Volvo and Toyota, in order to investigate changes in *HRM* management processes in two companies with integrated approach to *HRM* operating in an industry hit hardly by last crisis. In order to bring a broad range of perspectives in research, analysis on sustainability reports was combined with external information from books and articles on companies as well as primary data provided from interview with internal representative of Volvo.

This study focused at capitalizing on impacts of economic crisis in HRM policy as a stepping stone to analyze changes that lead to resilience. It proposes implications for future management practices related employees management as a way to build resilience. From Volvo and Toyota cases it can be concluded that strategic changes in HRM fueled by the crisis can lead to resilience only when employees management strategy is integrated in work culture of the company, as in case of Volvo, and is not only a philosophy at top management level, as in the case of Toyota.

Global crisis developed upon a general systemic failure which generated unpredictable economic and social consequences. Building resilient HRM policy enhances organizational resilience and organizational resilience is fundamental for sustainable development of economy and society.

Even though, resilience is a new concept adapted in business field and there is a limited literature on the subject, often fragmented on specific topics not covering all dimensions of company's management practices, stakeholders and interrelations. One of the implications for further research is to develop concept of resilience in business management.

There are also limitations related to small number of cases. A study more extended in time including more companies would broaden perspectives given in this research.

References

1. Bartlett, W., & Prica, I. (2011). The variable impact of the global economic crisis in South East Europe. *Ekonomskianali*, 56(191), 7-34. doi:10.2298/eka1191007b
2. Blundell- Wignall, A. and Atkinson, P., (2009). Origins of the financial crisis and requirement for reform. *Journal of Asian Economics*, 20 (5), 536-548.
3. Calrk, T. R., (2010). *Epic Change: how to lead change in the global age*. San-Francisco: John Willey and Sons.
4. Caulkin, S., (January 1, 2009). Corporate apocalypse. *Management today*, Retrieved from: <http://www.managementtoday.co.uk/news/870435/Corporate-apocalypse/?DCMP=ILC-SEARCH>
5. Coutu, D., (2002). How resilience works. *Harvard Business Review*, 80 (5). Retrieved from: <http://hbr.org/product/how-resilience-works/an/R0205B-PDF-ENG>
6. Davies, H., (2010). *The financial crisis: Who is to blame*. Malden: Polity Press.
7. Donnellan, B., Larsen, T.J., Levine, L., and DeGross, J.I.(2006). *The transfer and diffusion of information technology for organizational resilience*. USA: Springer.
8. Hackaj, A., (2015). *Trendet e punesimit rinor ne Shqiperi: Cfare kerkon tregu*. Tirane: Friedrich Ebert Stiftung.
9. Hamel, G., and Valikangas, L., (2003). The quest for resilience. *Harvard Business Review*. Retrieved from: <http://hbr.org/product/quest-for-resilience-hbr-onpoint-enhanced-edition/an/4910-PDF-ENG?Ntt=the%2520quest%2520for%2520resilience>
10. Heller, V. L., and Darling, J. R., (2011). Toyota in crisis: denial and mismanagement. *Journal of Business Strategy*, 32 (5), 4-13.
11. <http://www.environmentalleader.com>.
12. Hendry, C. (2000). *Human resource management: a strategic approach to employment*. Oxford: Butterworth-Heinemann.
13. ISO 26000, (2010). *Guidance on social responsibility*. Switzerland: ISO 201.
14. Kence, T. and Dibooglu S., (2009). The 2007-2009 financial crisis, global imbalances and capital flows: Implications for reform. *Economic Systems*, 34, 3-21.
15. Klein, R.J.T., Nicholls, R.J., and Thomalla, F., (2004). Resilience to natural hazards: how useful is this concept? *Environmental Hazards*, 5 (1-2), 35-45.
16. Liker, J., (2004). *The Toyota Way*. New York: McGraw-Hill Professional.
17. Liker, J., and Ogdan, T.N., (2011). *Toyota under fire*. McGraw-Hill.
18. Liker, J., (8 March, 2011). Toyota recall crisis: what have we learned. Retrieved from: http://blogs.hbr.org/cs/2011/02/toyotas_recall_crisis_full_of.html
19. Loehr, J., and Schwartz, T., (2003). *The power of full engagement*. New York: The Free Press.

20. Marelli, E. P., Patuelli, R., & Signorelli, M. (2012). Regional Unemployment in the EU Before and After the Global Crisis. SSRN Electronic Journal. doi:10.2139/ssrn.1935357
21. McDaniels, T. Chang, S., Cole, D., Mikawoz, J., and Longstaff, H.,(2008). Fostering resilience to extreme events within infrastructure systems: characterizing decision context for mitigation and adaption. *Global Environmental Change*, 18 (2008), 310-318.
22. Pride, W.M.,Hughes, R.J., and Kapoor, J.R. (2011).*Business*. Ohio: Cengage Learning.
23. Sanfey, P. (2011). South-eastern Europe: lessons learned from the global economic crisis in 2008–10. *Southeast European and Black Sea Studies*,11(2), 97-115. doi:10.1080/14683857.2011.588017
24. Sun, W., Stewart, J. and Pollard, D., (2010). Reframing corporate social responsibility: lessons from the global financial crisis. Bingley: Emerald Group Publishing Limited.
25. Sun, W., Stewart, J. and Pollard, D., (2011). Corporate governance and the global financial crisis. Cambridge: Cambridge University Press.
26. Sutcliffe, K.M and Weick, K.E., (2007). *Managing the unexpected*. CA: John Wiley & Sons.
27. The background behind Toyota recall,(12 February, 2010)Japan Press Weekly. Retrieved from <http://peoplesworld.org/the-background-behind-toyota-recall/>
28. Towmey, D.F. (2006). The leadership diamond. In eds. Wirttemberg, J., Russell, W., and Lipsky, D., (2008). *The sustainable enterprise fieldbook*. Sheffield: Greenleaf Publishing Limited.
29. Toyota Environmental and Social Report, (2005). Retrieved from: http://www.toyota.cz/Images/Toyota_European_%20Environmental_and_Social_Report_2005_tcm423-527105.pdf
30. Toyota European Sustainability Report (2008). Retrieved from: http://www.toyota.dk/Images/ToyotaEuropeanSustainabilityReport08_tcm200-83997.pdf
31. Toyota European Sustainability Report, (2011). Retrieved from: <http://www.toyota.eu/sustainability/Pages/default.aspx>
32. Toyota European Sustainability Report, (2009). Retrieved from: http://retailer.toyota.hr/Images/SustReport09_tcm529-967917.pdf
33. Toyota European Sustainability Report,(2006). Retrieved from: <http://www.toyota.ie/downloads/european-sustainability-report-2006-tcm280-581717.pdf>
34. Valikangas, L., (2010). *The resilient organization*. McGraw-Hill Professional.
35. Volvo Car Corporation Sustainability Report. (2006). Retrieved from: <http://www.volvocars.com/SiteCollectionDocuments/TopNavigation/About/Corporate/VolvoSustainability/Sustainability%20Report%202006.pdf>
36. Volvo Group Sustainability Report (2011). Retrieved from: <http://reports.volvogroup.com/en/index.html>
37. Volvo Group Sustainability Report , (2007). Retrieved from: http://www.volvogroup.com/SiteCollectionDocuments/VGHQ/Volvo%20Group/Investors/Financial%20reports/Sustainable%20reports/sustainability_report_07_eng.pdf
38. Volvo Group Sustainability Report, (2010). Retrieved from: <http://reports.volvogroup.com/en/index.html>
39. Wilkinson, A., Hill, M., and Gollan, P.,(2001). The sustainability debate. *International Journal of Operations and Production Management*, 21 (12), 1492.