THE ROLE OF HUMAN RESOURCE MANAGEMENT IN TURBULENT TIMES

Chundika Ariyawansa
AIB, AMIPM, MAAT
Manager Training, Sampath Bank PLC

"*Our assets walk out of the door each evening. We have to make sure that they come back the next morning*"[1] – Narayana Murthy, Chief Mentor of Infosys.

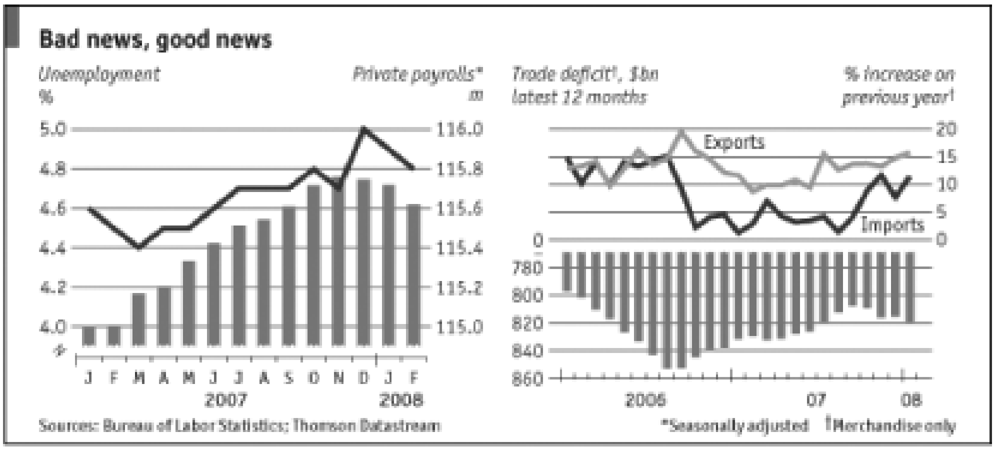
A key challenge faced by the organizations in many developing countries in the sphere of Human Resource Management is the retention and development of talent. Given the changing dynamics of the organizations in line with falling economic, cultural and trade barriers among countries, the world has become a truly flat place. The result is the **mobility of talent** as any other commodity across national borders. The article examines more pragmatic approaches to the issue in the context of the financial services industry of Sri Lanka.

1. Macro business environment

The world is at crossroads today; on one side the ever increasing oil prices are hurting almost all the economies across the globe, including the ones that were once regarded as very resilient and robust whilst on another front there are signs of a looming food crisis. On top of all that, the world has encountered a chain of natural disasters such as the tsunami, earthquakes, floods and cyclones during the last few years.

In another development in the US and Europe, a banking crisis is deepening further which the WTO chief Pascal Lamy attributes to the lack of prudential regulations in world markets that in turn has adversely affected the world economic growth. The US appears to have suffered more than Europe. The following chart clearly demonstrates the degree of the economic crisis in the US.

Figure 1: US economic performance



Source: Economist.com (June 12, 2008)

Given this macro environment, there is no doubt that countries like Sri Lanka are more vulnerable in the economic front considering the long drawn ethnic conflict and the increasing inflationary pressures on the economy. According to Lanka Business Online (LBO) report as on June 12, 2008 during the month of May, inflation hit a new record of 26.2%. At the same time the average weighted prime lending rates of commercial banks have also gone up to 18.7% as at end May 2008 according to Central Bank of Sri Lanka weekly publications. This environment is not conducive to a business organization to grow and sustain in the long run though from the economist's point of view there can be opportunities at difficult times as well. Even though Sri Lanka is facing numerous challenges at this moment in many fronts, the noteworthy feature is the ability to withstand all such pressure and remain positive expecting a better tomorrow. In this respect the people of the country could be commended for their maturity and perseverance.

2. Challenges for financial services organizations in Sri Lanka

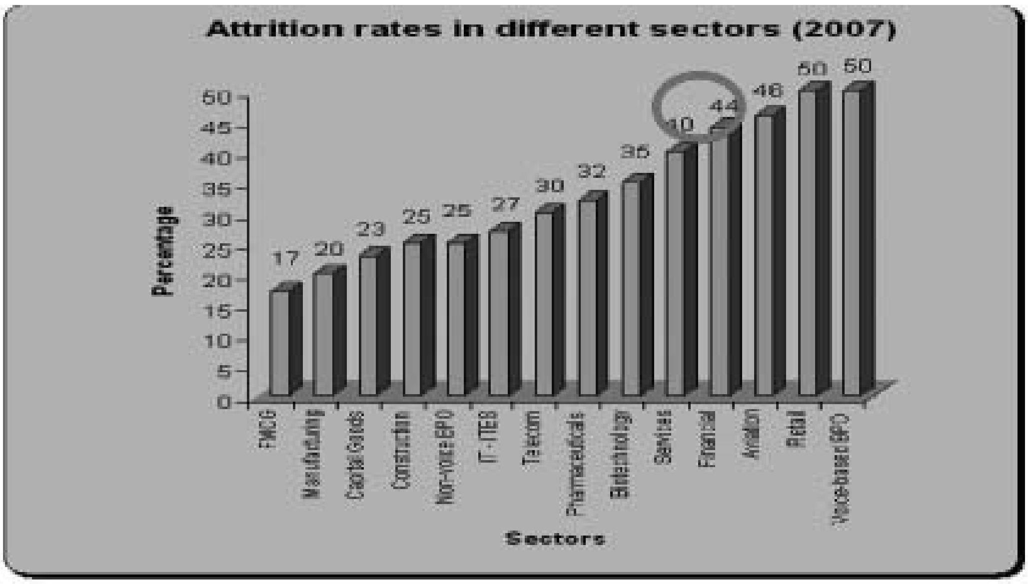
Financial organizations are the bedrock of any economy, which is true in the Sri Lankan context as well. The Sri Lankan financial services industry has passed many mile-stones during the last two centuries or so, from financing mere plantation industry to more complex industries in the modern society. One of the pressing issues in the financial services industry is the shrinking margins of the core business, which is lending. This is due to several factors such as stiff competition in the market among many players and the hyper inflationary situation of the country which leads to higher cost of funds. The organizations are pressed to the limit to acquire best returns for their investments, be it money or people.

www.infosys.com/about/cases

As to the people aspect it is a fact that banks in particular are pressed with the high attrition rates among their junior and supervisory grades. This fact is supported by the Fitch Ratings Lanka Ltd[2] in its recent report, which says that recruiting and retaining human talent is a key issue for Sri Lankan banks. Fitch observes that there is rather high staff turnover at the middle/junior management and clerical levels within the banking system. This affects the creation of a trained pool of staff to meet current requirements and future management succession needs. Although Fitch does not consider this a critical issue at present, unless addressed appropriately, and if the current socio-economic, political environment and resulting talent drain continues, the Sri Lankan banking industry will have to face a human talent shortage in the next decade or so.

Although statistical data is not available for Sri Lanka with regard to the attrition rates in different industrial sectors of the economy, an Indian situation is given in the chart below which can be assumed as applicable, more or less, in the Sri Lankan context as well.

Figure 2: Attrition Rates in Different Industrial Sectors in India.



Source: **www.retention.naukrihub.com**

[2] "**The Sri Lankan Banking System** " - November 2007, Fitch Ratings Lanka Ltd

Accordingly services sector and financial sector showed an attrition rate of 40 and 44 percent respectively in the year 2007. This is a comparatively high rate of attrition for a developing economy which may have a larger impact on a small country like ours.

3. Challenges for HRM

As per the findings of Fitch Ratings Lanka Ltd, the future challenge of HRM in the field of Financial Services Industry is the **talent retention and development**. In this process one of the most critical aspects is motivating employees to remain with their respective employers.

Talent retention

Professor William J Rothwell in his article[3] states that a major challenge in dealing with motivation is debunking the assumption, common among many managers, that workers always leave for higher pay. It is easy to rationalize that way. Most workers usually offer their employers in exit interviews such socially-desirable reasons for leaving as a need to seek higher pay or else a need to follow spouse to another geographical location. That prompts managers to conclude that pay is the most important single factor leading people to leave their jobs. It is true that pay is important. Indeed, a study by the Corporate Leadership Council, cited in Eisenberg, Kilduff, Burleigh, and Wilson (2002), listed the following factors (in order of importance) in employee decisions to leave:

1. Pay
2. Manager quality
3. Health benefits
4. Hours of work
5. How well pay and other employment factors match up to what is available through competitive organizations
6. How well the individual's talents match up to work demands.

A 1997 Watson Wyatt survey, cited by Fyock (2002), indicates that a major reason for employees leaving is that their managers do not listen to them.

The most important lesson to be learnt from these conflicting research results is that pay, though important, is not the only factor in an employee's decision to leave an organization. It is more complex than that. Indeed, human beings are very complex, and few problems can easily be reduced to one root cause – such as pay. A more accurate statement is that "people quit their bosses, not their jobs".

The above survey further mentions ten common problems that affect the decisions of employees to stay with an organization.

[3] "**Motivating for Retention**", HRM Review, May 2008: The Icfai University Press, p.26-28

1. _Managers take workers for granted_ – A common problem is that managers do not see work done by the employees as an effort of a human being. They tend to forget about 80% of what they see or hear within 48 hours. What sticks in their minds is outstanding or exceptional performance of a person, on the basis of which the opinions are formed and conclusions are drawn. In this backdrop if some employees do not show exceptional performance but deliver goods constantly, such employees are taken for granted. This would prompt good workers to feel they are not appreciated. In the financial services industry it is a common occurrence where employees are simply praised for exceptional performance but not for continued good performance.

2. _Managers treat employees inappropriately_ – One of the fundamental mistakes committed by the managers is criticizing an employee in front of his or her peers or subordinates. This is completely against the saying, "Praise in public but criticize in private". However, in most cases, such managers would argue that they wished to set an example for others, in other words to send warning signals. The result would be the embarrassment of the employee and a quicker decision to quit. In the service industry things could become really worse if the employees are charged in the presence of customers where the damage could not be fathomed.

3. _Managers forget to listen_ – Research has shown that managers listen with only 15% efficiency. This is mainly due to numerous distractions in the environment such as telephones, e-mails or voice mails etc. "Listening" means not only hearing, it includes "hearing on all levels", which means the emotions or body language behind an employee's message. For example when a special task is assigned, the employee might say "I'll do it" with much confidence and faithfulness but it may be met with a blunt reply of a nod of the manager. This would dissuade employees from doing things that are extraordinary.

4. _Managers do not punish slackers_ – A common problem in many organizations including those in the financial services industry is the inability of the managers to deal with average or below average performers. One important reason for this state of affairs is the inappropriate performance appraisal systems in place. At the same time the good performers may tend to get unusually large chunks of work whereas the slackers may get away with minimum contributions. The managers feel bad about speaking ill of a person and being called a "bad guy". The result of this situation is "bad drives out the good". In other words, the organization would be left with a group of under-performing employees.

5. _Managers do not provide a challenging work environment_ – In many Asian cultures a challenging work set up for professional employees is one of the prerequisites. If such an environment does not prevail the employees would be compelled to move for a more challenging work setup.

6. *Managers do not coach employees* – A common buzz word in HRM is coaching. However, it is neither well understood nor well practiced by line managers. One contributor for this situation is that, there are only a handful of line managers who have been trained to become professional coaches whilst the majority is of the opinion that coaching means giving orders. The truth is that it is a very skillful job which requires a great degree of patience and understanding of fellow employees. Therefore, HR needs to intervene to train line managers as professional coaches.

7. *Managers get employees least involved in making decisions affecting their future* – Each year Gallup organization does an engagement survey of workers in US. Few workers each year say that they are fully engaged. Others are outright hostile to the mission and objectives of their organization. In a nutshell this is called an engagement problem which is mainly due to the lack of seeking opinions on matters affecting employees or taking unilateral decisions. It should be remembered that gone are the days that managers were considered as the only decision makers by virtue of their position or authority.

8. *Managers do not reward or recognize high performers* – A common occurrence in many organizations is the lack of recognizing high performers. The argument of many managers is that the performers are paid for what they do. However, the practicality of the situation is that employees are not satisfied with a hygiene factor like pay. They need something beyond money, may be a kind word, which is a hardly understood phenomenon by managers.

9. *Managers forget to say "Thank You"* – A simple and inexpensive word "thank you" could do wonders for employees. However, unfortunately due to busy engagements such phrases hardly occur in the vocabulary of managers.

10. *Managers leave work group conflicts unresolved* – When an issue crops up in a work place managers may neglect to resolve it since they expect to get it resolved automatically. One reason for this situation is that managers do not want to add more issues to their existing stock. However, when the situation aggravates the situation may get out of hand.

The above points describe what managers should not do. To motivate and retain talent managers must;

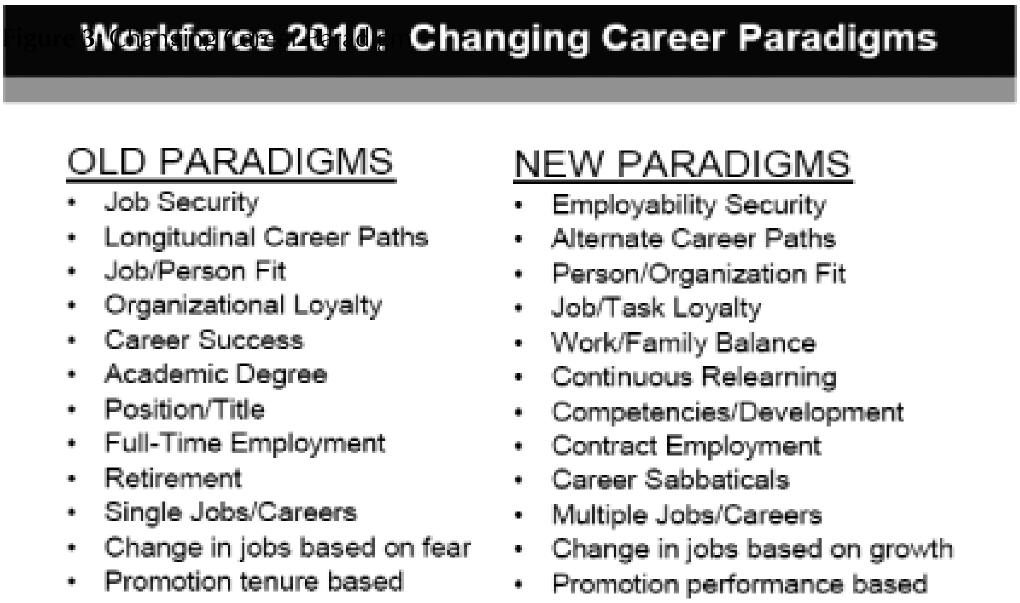
1. Appreciate employees for their individual strengths
2. Treat employees as managers would themselves like to be treated
3. Remember to listen for feelings as well as facts
4. Take action against slackers
5. Challenge employees and give such tasks
6. Coach employees
7. Involve and engage employees in making decisions affecting them
8. Reward or recognize high performers
9. Say "thank you"

10. Resolve work group conflicts when necessary

In addition to the de-motivating factors discussed above another article[4] highlights other factors leading to high attrition rates.

- Employees' expectations of the job
- Absence of a conducive work place environment
- Mismatch of job profiles
- Lack of opportunities for pursuing higher studies and career growth
- Lack of trust
- Stress and work-life imbalance
- Odd working hours
- More lucrative job offers in the market.

Another aspect of which HR managers need to be aware is the changing career paradigms of employees. In this regard it has to be understood that the new generation of employees belong to generation Y (born 1982 – 1997)[5] and has been brought up under a different economic and cultural setting. As such their values are different to those of the other generations that exist. Figure 3 gives a comparison and a more futuristic view on that.



Source: www.envisialerning.com

[4] **"Managing Attraction Level of Organizations"**, HRM Review, March 2008: The Icfai University Press, p.33-34
[5] Wikipedia,the free encycolopedia

Figure 3 gives HR managers the direction of the blowing wind; as such their policies, procedures and processes must be re-examined from time to time.

3.2 Talent Development

As most HR managers make an effort to retain employees, the next step that follows automatically is the development of such employees. This aspect of HRM requires a greater degree of planning and coordination.

The web definition[6] for Talent Development is arranging programs, curricula, and services for gifted and talented students that can best meet their needs, promote their achievements in life, and succeed. In the context of any organization, the arduous task would be identifying talents of different employees, gaps and remedial actions. The development of talent should be linked to the succession planning of the organization as the outcome would eventually lead to giving more dynamic leadership to the organization by the respective employees in the future. Therefore, the target employee category would be the executives of the organization.

In many organizations there are Executive Development Programmes (EDP) developed and conducted in-house with the facilitation of both internal and external resource personnel. The relevant question is not whether there is a programme per se but what mechanisms are employed to choose employees.

In most cases the selection is done on the gut feeling of top executives, with no scientific basis. This method may also lead to favouritism and bias which would have a negative impact on the retention strategy of the organization. In this context the use of Assessment Centre technique with the facilitation of external experts would be ideal though it involves a considerable amount of investment. However, an organization should not hesitate to invest on this method now in order to get a better return in the future.

Although the EDP for an organization will depend on the nature and the dimensions of the business, there are few common basic approaches to this task as per Mallikarjunan in his article[7]. They are;

- Company's business goals and the steps to be taken for achieving them
- Blueprint for the development programmes in the light of achieving the company's goals and implementation of these measures
- Identifying the nature of the skills required to achieve the goals in the light of economic or business trends
- Periodic review of the progress of the company vis-à-vis the turnout of trained hands

[6] www.google.com
[7] **"Executive Development Programme - A Chisel for HR Architects,** HRM Review, February 2008: The Icfai University Press, p.15-18

4. Conclusion

Given the challenges faced by the financial organizations in the country, it is clear that HRM is the platform to address those issues effectively. There are no ready made answers for the issue of high attrition rates in the context of employee pay, which cannot be matched by local financial organizations with that of foreign counterparts. However, a more employee centered approach mixed with clear plans for the future of the organization including succession planning and good talent management practices would pave the way for a better place of work for the employees. Therefore, the challenge for HR professionals is how to transform the respective organizations to become even better places of work for key employees.

References

- Central Bank of Sri Lanka – Annual Report 2007
- Dave Ulrich & Michael R. Losey, **Tomorrows's HR Management**, John Wiley & Sons, 1997
- Fitch Ratings Lanka Ltd, November 2007, (www.fitchratings.lk)
- Garry Desler, **Human Resource Management**, 10th ed. New Delhi, Prentice Hall, 2005
- **HRM Review**, February, March & May 2008: The Icfai University Press
- www.lankabusinesonline.com
- www.cbsl gov.lk/info/08_statistics/s_6.htm