The Dilemma of Training & Development in Times of Economic Recession

Kris Mailepors, MBA
Organizational Development and Training
Catholic Medical Center, NH

There are many competitive pressures that act on firms. Some are external to the firm and stem from the competitive environment. Some are internal to the firm and come from shareholders and board members. In difficult economic times like a recession, these pressures can be amplified by shrinking revenues. Such pressures act in varying ways to urge the firm to seek cost reduction (Porter 1980). As a way of controlling cost as revenues shrink, many companies reduce training and development dollars. As budgets for workforce and training are reduced, the firm is faced with a dilemma: reduce training programs to lower costs or invest in new knowledge to gain competitive advantages. This dilemma can have many answers and it can vary by industry.

As a firm operates during a recession, pressures come from the top to reduce costs. This is a prevailing dominant logic that exists in many firms (Prahalad and Bettis 1994). Cost cutting measures can manifest themselves in many areas. By reducing costs, firms have a better chance to increase margins and have more funds for new ventures, support of existing ventures, or paying shareholders. Top management has a primary responsibility to satisfy shareholders. And in the short term that means having the ability to produce profits in the current year. Failure to do so can result in the loss of shareholder capital. In difficult economic times, many shareholders have a diminished patience for long term benefits. Pressure starts at this level for the firm to produce profits and margins for the short term.
A CASE TO REDUCE TRAINING AND DEVELOPMENT PROGRAMS IN A RECESSION

One prevailing cost-cutting trend for a firm during a recession is to downsize its workforce (Krau 1995). As economies cycle in and out of recession, firms downsize as a way to reduce costs. With cost reduction of any kind, a firm should compare the overall benefit of the cost reduction with the overall loss of what is being cut. In the case of downsizing, the loss of employees results in lost knowledge, experience and overall productivity. To balance this loss, a firm benefits in two ways: reduction of costs of salary and increased per-person productivity. The latter isn’t always a clear benefit. In theory, when a firm reduces a 10-person workforce by 3, for example, the 7 remaining workers are typically expected to maintain the original workload. This means that the smaller group must do the same, but the per-person output has increased; someone has to be taking up the slack. Additionally, some larger firms will cut out an entire layer of management and put the onus on the remaining leaders to expand their roles and take up the slack (Selmer and Waldstrom 2007). A diminishing workforce volume gives rise to a need for training and development, yet few companies can justify such an expense when they have let go of employees. For public relations reasons, companies would consider a reduction in workforce as a last-resort cost measure. Yet according to Case (2001) large firms are always shedding jobs as they attempt to become a cost leader in their industry; cutting jobs is a way to increase efficiency.

Another potential cost-cutting measure is to cut down on programs that don’t have a direct impact on profitability. This can include training and development. Although correlations have been drawn linking increased training and development activity to increased productivity and therefore increased outputs (translated into production, revenues, or profits), firms may be under shareholder pressure to only fund activities that have a more direct connection to financial improvement (e.g. downsizing or other increases in efficiency). Therefore, in tough economic times, training programs are sometimes the first to be cut (Mohrman and Worley 2009). Jones (2008) suggests that in tough economic times, greater investments in research and marketing supersede the need to invest in programs such as training and development.

Arguments for reduction of training and development programs during economic recessions make financial sense. When a company has affluent cash flows, money can be spent with less aversion to risk. As margins and profits tighten, aversion to risk should increase. Training and Development programs have many benefits, but much of the benefit is intrinsic, and financial benefits aren’t normally reaped immediately. Sophisticated training and development programs can carry a high cost, with over USD$58.5 billion spent in 2008 in North America (Galloway 2008). The need to reduce such costs is a seemingly logical one.
A Case to Increase Training and Development Programs in a Recession

Much research has been done to emphasise the need for increased training and development programs in difficult economic times. Training is important to the individual employees as well as to the long-term health of an organization (Griego, et al 2000). As previously mentioned, the benefits of a training and development program are long term. Firms also engage in strategic planning for the long term. This presents an opportunity to directly connect training and development programs with a firm’s strategic plan. By investing in training and development programs, the firm increases the likelihood that their people can pioneer into new areas and develop new technologies (Christensen 2003). When existing products and services are yielding declining profits, it makes sense to be investing in such training and development practices to develop new ones.

If a firm is downsizing, they are usually requiring a smaller group of people to perform the same outputs or deliverables. This is added pressure on these employees, and there can also be added job requirements; i.e. skills they do not yet possess. Here are two illustrations of this. If a regional manager must take over for a group of direct reports who have been made redundant, the former now has the responsibility of oversight that their direct reports had. That manager now has a large pool of new reports and may need to engage in training for new leadership skills such as change management training. A different example could involve a group of 10 people working in a design department. They are likely to have similar competencies, but specific skill sets may vary. Three of the 10 may specialise in one type of software good for certain jobs, while another four may specialise in another type. Losing a bundle of that staff could result in loss of net knowledge which has to be replaced if the new group is expected to perform the same outputs. For these differing reasons, training and development can be important during a recession even after downsizing.

Training programs can increase employee morale. Employee productivity and morale increase because employees see that their employer is investing in them and striving for a better work environment. Flannery, et al (2005) say this can be an effective counterattack to the common low morale of employees during a recession; when they worry most about job security. Employees gain intrinsic job satisfaction when their employers invest in their development (Hertzberg, et al 1959). The effect of engaging employees in training and development can therefore be seen as having a two-fold benefit: they learn important skills to be able to perform their job at a higher level, but they also become more engaged and committed to the firm. That raised level of commitment can mean an immediate impact on job performance and immediate increases in measurable productivity. This means that even if an employee engages in a training that might not have immediate application (such as a
management candidate experiencing management training), the motivational factors could translate into other functional areas.

With recent advances in technology, training that was very costly several years ago may cost much less now. With e-conferencing and the expanding availability of resources online, many companies are finding ways to expand their intellectual property for less capital investment than in years past. In past years, firms would spend large amounts of money to hire a thought leader into the organization. A consultant or thought leader then brings both the knowledge and delivery capability. Savvy firms are finding more cost effective methods of getting comparable results such as distance learning and in-house development. The firm can replicate similar information, but the quality delivery may be less than the more costly consultant, so some benefit is lost. Nonetheless, firms that engage in distance learning and other in-house learning are making progress toward becoming a learning organization (Hamel and Valigangas 2003 and Robelo 2008). Sun (2008) has discovered that such avenues as e-learning have opened up new ways for firms to offer training and development programs and also increase employee satisfaction. The phrase “communities of practice” is coined by Wenger and Snyder (2000 p. 81) to describe the way that an organization which is committed to (and engaged in) training and development has employees that are “sharing knowledge in (a) free-flowing, creative way that fosters new approaches to problems.” A major benefit to implementing a training and development program is that when it is widespread, the firm can achieve synergy; the sum of the sharing of knowledge is greater than the individual knowledge of the employees.

Based on the cases made in favor of and in opposition to the implementation of training and development programs in a recession, the benefits of having the programs outweigh the benefits of cutting them. Further research would need to be done regarding the effect of immediate motivation and job satisfaction on employee performance—to connect training and development directly to immediate productivity. This would help to make the case for the immediate financial benefits; i.e. if employees are more productive regardless of the exact training in which they engage. The long term benefits don’t seem to be widely disputed. The debate of the short term need for profit and the long term need for development of human capital will continue to be argued by the logic on both sides. This is not a debate over wrong versus right, as both sides present strong arguments. Cutting training and development programs during a recession can have benefits because of the cost savings, but such cuts may stunt the long term growth of the organization.
References:

Websites:


Books:


Articles:


