

Member's Quarterly

Summer 2018 Edition

Feature

Managing the People

HR's role in a Financial Crisis



Philip Gennis
J.D., CIRP, LIT
msi Spergel inc.

Introduction

When an organization is in a financial crisis, one of the things that sometimes gets overlooked is the people side of the business. The CEO and the CFO are often huddled with their teams trying to make a determination about which route to follow that will get them out of the current crisis and into something more stable. At this point their only interest is financial. According to Phillip Gennis, Senior Principal at msi Spergel, if HR wants a role in this situation there's a number of things they can and should do.

"Human Resources leaders can play a key role in any financial crisis if they are up to date on the organization and they know the details of the crisis. They may not be the primary go-to people but if they are knowledgeable and timely, they can provide useful and valuable advice to the decision makers on the human resource implications of any proposed strategy," says Gennis.

Know the Business

The days are long gone when HR was some sort of private island, removed from the day to day operations of the organization. Today HR is expected to know the business and to be prepared to participate in discussions at all levels of the business. Long before a financial crisis hits, you have to get out of the HR offices and start walking and talking the other parts of the organization. Phillip Gennis says "You don't need to know how to operate the equipment, but you do need to know how many people it takes to run it and what they cost on an on-going basis."

You also need to know your product line or the package of services your organization is selling or providing, the challenges in making and delivering these to your current customers and the marketing strategies for attracting new customers. When you are educated on all these aspects of the business, you will be in a much better position to give reliable advice on the people issues when a financial crisis arises.

Know the Finances

In a financial crisis, almost all the attention is on the financial aspects of the situation. It may be that loans are coming due or the banks are not happy and threatening to reduce operating lines of credit. In this atmosphere, speed and accuracy of information are vital. HR experts who want to be part of any discussions in this arena have to be able to play by those rules. "What the CEO and the Executive team want at this point are cold, hard numbers. HR should come to the table and be able to speak in that language. There is no time for any other discussions," says Phillip Gennis.

Some of the information that HR should have ready is the total payroll costs that includes all of the benefit packages across the organization. You should also have the information readily available on the people costs by departments as well as any provisions in collective agreements or employee contracts that might kick in if a decision is made on any of the possible plans moving forward. The leadership of the organization needs to know the financial impact of any decisions and HR can help them define the people costs.

Member's Quarterly

Summer 2018 Edition

Feature continued

Know the People

As HR professionals, we think we know the organization, and we should. But in financial crisis we need to be able to draw on that knowledge in an instant and be prepared to give direct advice to hard questions. One of those questions might be who are the key people in the organization and who might be expendable if the financial push comes to a shove? Another might be what are the implications of the various routes that an organization might follow to resolve its short-term problems and move to a more stable footing?

You can do some of that homework now before the crisis hits. Start by evaluating all your personnel in terms of their value to the organization. Do it for both the best case and the worst case scenarios. If you had to go to a bare minimum of operations in order to maintain the organization through a transition, who would you recommend that you keep? Who or what sections would you think might be the first to let go if you wanted to cut costs?

Know the Possible Paths Ahead

You might as well get started on this homework now. If you get into a serious financial crisis, there will be a number of possible routes for the organization to consider. The first choice will always be some form of status quo and the questions raised in this avenue will be how to cut costs or scale back operations in order to survive to a better financial place in the future.

If the situation is financially dire, then bankruptcy or insolvency may be on the table. There is also the interim step of some form of legal protection while the organization works through the decisions they have to make. The most popular of those in Canada is the Companies' Creditor Arrangement Act (CCAA). It gives a company protection from creditors for a period of time to see if they can get their financial act together. This however only applies to large companies who owe over \$5 million to creditors. All of these legal options come with specific rules and guidelines to follow. Check them out now so that you will be ready if any of them come to pass in the future.

There are numerous ways that HR can play a role when it comes to dealing with a financial crisis. Just remember that it's all about the money. Phillip Gennis says "Do your financial homework before the crisis hits. Your HR advice can help the CEO and their team not only make a decision, but the right decision, for the organization and the people who hope to keep working there."

Members Quarterly Staff Writer