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The Changing Employer-Employee Relationship

Bad times affect expectations on both sides. But managers can turn downturns into an opportunity to build employee loyalty

By Stephen A. Miles and Nathan Bennett

The public is all too aware of the controversy surrounding AIG's (AIG) collapse due to its exposure in credit default swaps, the scope of the government investment to bail out the company, the outrage over generous bonuses paid to many of the same executives responsible for the poor business decisions that derailed the company, and the efforts from many quarters to recover those bonuses.

Beyond these executives, however, are thousands of AIG employees in more than 100 countries who can't entirely avoid being tarred with the same brush. In the U.S., employees have been advised not to display the company logo while out of the office. In advance of a planned demonstration at the New York headquarters, employees with offices on low floors were advised to close the shades on their windows for their protection. Angry, even threatening e-mails have been sent to the company.

A Challenge for AIG's Leaders

AIG—a company that until recently was portrayed on Web sites such as vault.com as a very solid employer—now faces a situation where the company's relationship with its employees has fundamentally changed. Negative comments outpace the positive on jobvent.com by a 2 to 1 margin. Clearly, the team that will be assembled to lead AIG forward faces a tremendous challenge. However, the recession has similarly affected the employer-employee relationship at all companies—not just those grabbing headlines.

To attract, retain, and motivate employees, employers made promises that really could be kept only if the pace of growth in the business continued. Expected growth in profitability and in opportunities were the fuel that fed the "deal" that employers were able to offer employees. At many companies growth plans have since been shelved in favor of retrenchment plans. This recasting of the employment context raises a number of important questions, among them:

• How should we expect the nature of the employer-employee relationship to evolve?

• How have the tools employers have to attract and reward employees changed, and what does that mean for how managers must manage?

One way to characterize the exchange between employers and employees is as a series of promises. Employers promise some level of safety and security, adequate resources to perform jobs, opportunities for development and advancement, and so on. In return, employees promise their experience and effort. The recession effectively has forced employers to defer delivery of all sorts of promises to employees. Economic uncertainty is creating a situation where employees no longer see a direct link between how hard they work today and how their employer will respond.

The resulting challenge for managers is to find ways to stay credible and trustworthy in an environment where promises may be seen as empty. Effectively this means employers find themselves more frequently asking employees to trust the company—assuring employees that better days are ahead and their efforts today will not be forgotten tomorrow. Of course, if the recession is a fairly short one, then less forgetting will occur. Employees can be expected to endure a rough patch. When emotions like fear and frustration become a new normal, though, it is tiresome. How long can employers rely on "trust me" as a way to encourage employee engagement?

Loyal Workers in Bad Times

What can employees fairly expect from their employers in times like these? In tough times true character is revealed—this is just as true for companies as it is for individuals. The way employees are treated when the chips are down says a great deal about what really matters to employers. Ironically, these difficulties provide opportunities for employers to earn tremendous loyalty from their workforce. Of course, if the cards are misplayed, the damage in employee relations can take years to repair.

Employers need to communicate tirelessly and strive for transparency. It may be all they have to offer employees in such resource-constrained times. Unfortunately, some employers are resorting to fear-based tactics in an effort to reinforce employee engagement. In the short run employees may respond to such heavy-handed approaches, but such a practice is not likely to be sustainable.

So what are employers to do? The first recommendation is that employers work diligently to create a "no surprises" environment. In managing this way, they build employee perceptions of the company's trustworthiness. Doing what is planned when it is planned creates trust.

A second recommendation is to work to find out and then to protect what really matters to employees. There will be elements of work that truly are cherished—and they may be surprising. In one instance, a headquarters cut a fairly inexpensive perk—afternoon cookies in the break room. The impact on morale was so strongly negative that one executive commented the "cookies were the costliest savings we ever achieved."

The third recommendation is to be certain you fully understand how the cuts and other changes being made around the workplace affect each employee's ability to do his job well. If tools, full-time employees, and other resources are being more carefully managed (as they should be), make sure first that employees' capabilities to perform are not threatened. Make adjustments as needed, such as ensuring that there is enough time available to complete work, so that the employee doesn't lose confidence that he or she can deliver to the company's expectations.

These three steps will generate a sense that a company is trying to be sensible, trustworthy, and transparent in managing through the recession. Some employers are managing today as if employees have no options—that they should simply be thankful they have a job. This may be true today, but as things improve, the way you manage through these rough times will send a signal to employees about whether or not you remain an employer of choice when things improve. Chief executives must remember that they will get the culture they deserve, and much of what they do in this downturn will define "what they deserve" going forward.

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