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Business cycle management and company performance hiring habits

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ABSTRACT

Purpose: the purpose of the research paper is to observe and analyse how major companies in the Baltic States (Latvia, Lithuania and Estonia) behaved during the last business cycle in terms of hiring management in order to identify different management hiring strategies across various countries and industries in different business cycle phases. The paper analyses whether companies adopt counter-cyclical or cyclical behaviour during different business cycle phases taking into account GDP indicators for each country.

Approach: statistical analysis from 2007 to 2012 encompassing the 1334 largest (large and medium-size enterprises) businesses in the Baltics by operating revenue. In the research paper clustering and comparison methods are applied in order to identify how businesses react to different business cycle phases.

Findings: the research findings show that companies in the Baltic States mainly behave cyclically and have very balanced counter-cyclical and cyclical behaviour with some industries that stand out. Overall the results show that hiring management in the Baltic States is carried out quite conservatively and there are few exceptions in counter-cyclical behaviour of hiring management.

Research implications: the research paper demonstrates that various industries adopt different strategies during the business cycle and there are differences on both country and industry levels, which opens a door for further research in order to develop a holistic instrument for how to adapt to different business cycle phases.

Originality: the first research paper that summarizes major Baltic companies' behaviours during the last business cycle on both a country and industry level and provides a comparison between them.

Paper category: research paper

Keywords: Business cycle management, hiring management, company performance

INTRODUCTION

The aim of this research paper is to analyse how major companies in the Baltic States manage their human resources during different business cycle phases, specifically during a peak, recession, trough and expansion on industry and country levels. The paper has the potential to uncover meaningful trends in a company's functional strategy regarding human resource management.

The main hypothesis of the research paper is as follows: "Major Baltic companies perform counter-cyclical hiring in order to seize opportunities in the labour market". And by performing statistical analysis of companies' data aggregated on industry and country levels, the author provides an answer to this hypothesis and makes recommendations for future research.

THEORETICAL FRAMEWORK OF THE RESEARCH

Business cycle management (further in the text – BCM) is a term that encompasses the strategy of applying counter-cyclical actions and, if applied in a timely way during the different business cycle phases, it can improve companies' performance relative to their competitors (Dhalla, 1980 cited by Navarro et al., 2010). In essence, BCM's aim is to utilize the business cycle phenomenon via a counter-cyclical response to different business cycle phases (Navarro et al., 2010). It must be emphasized that according to Navarro et al. (2010), a response to business cycle phases does not necessarily involve forecasting macroeconomic movements; rather, it comprises a timely response. Based on a literature review regarding business cycle management (Iesalnieks and Sarnovics, 2016) that summarizes and categorizes current business cycle associations or factors that are used by businesses to cope with business cycles, and taking into account the theoretical groundwork and some shortcomings identified, first-level analysis is carried out to identify the differences between countries' and industries' behaviour.

The key points from the theoretical groundwork that was laid out by Iesalnieks

and Sarnovics (2016) are as follows: a business cycle consists of fluctuations in economic activity, meaning changes in GDP between one year to twelve years, and has four phases – expansion, peak, recession and trough – and business cycle-related theories mainly focus on the reasons behind business cycle fluctuations, while BCM focuses on how companies manage their operations during different business cycle phases to ultimately gain a competitive advantage where possible (Johnson et al., 2007, 2011; Bank, 1981; Metcalf, 2012; Mascarenhas and Aaker, 1989; Zarnowitz, 1984; Banerji, Layton and Achutan, 2012; Moore and Shiskin, 1967; Sherman and Sherman, 2008; Johnson et al., 2007 as cited by Iesalnieks and Sarnovics, 2016).

The aim of this research paper is to review one of the aspects of business cycle management that is related to hiring management to analyse what companies do during different business cycle phases and how they do it. As several researchers have stated, one of the tools that is utilized during different business cycles to cope with the changes is human resource management, in order to gain a competitive advantage, e.g. by hiring human resources at a low rate during a

recession in order to have a competitive advantage when the economy recovers. Current research in academia has several limitations. Sample size is an issue, no countrywide comparisons are taken into account, nor how different macroeconomic dynamics influence business cycle management in different industries in diverse conditions, and in many cases the entire business cycle is not reviewed, just

one of the phases (Navarro et al., 2010; Lorange and Datson, 2014; Navarro et al., 2008 Conti et al., 2015).

Thus, this research paper addresses these shortcomings to some extent in order to identify potential patterns in different business cycle phases regarding how different industries behave in different countries.

RESEARCH METHODOLOGY

The research is based on quantitative data analysis where the data is comprised of 1334 companies in the Baltic States from a range of 17 industries that are classified taking into account NACE codes. One of the main variables is states of the economy, which consists of counter-peak, non-counter-peak, counter-expansion, non-counter-expansion, non-counter-recession, counter-recession, non-counter-trough and counter-trough. This means that for each year of companies' financial and non-financial data it has been indicated in which business cycle phase they are according to GDP (gross domestic product) fluctuations. Taking into account these fluctuations, different data (e.g. financial data – operating revenue; non-financial – number of employees) for each

company is analysed by the following method: taking into account the financial and non-financial data for each company depending on the results (an increase or decrease in financial and non-financial data), the data is connected to the GDP, resulting in cyclical and non-cyclical behaviour summarizing the results on industry and country levels.

Therefore, in order to understand how major companies in the Baltic States behave, year-on-year changes in employee numbers are analysed. In terms of this research paper, analysis is carried out in a comparative manner, i.e. how companies have performed in comparison to previous years: was there an increase or decrease in the number of employees?

In order to analyse hiring habits, the following approach was utilized:

1. Data is taken from the secondary database Orbis, which has information on over 275 million companies across the globe. It is the resource for company data. Orbis captures and processes data from almost 160 separate providers and hundreds of in-house sources.
2. The data consists of 1334 (large and medium-size) companies' financial and non-financial data in 17 NACE-categorized industries across the three Baltic States: Latvia, Lithuania and Estonia.
3. The data consists of the following financial indicators: operating revenue, number of employees, and non-financial data such as NACE industry categories and a macroeconomic indicator – GDP.
4. Taking into account the fluctuations of different data, each company is analysed by the following method: taking into account the financial and non-financial data for each company depending on the results (an increase or

decrease in financial and non-financial data), the data is connected to GDP, resulting in cyclical and non-cyclical behaviour summarizing the results on industry and country levels. For instance, if the number of employees increases more than >0 , then during a recession a counter-recession will result, while a non-counter-recession would result if the number of employees decreased.

5. To be more specific, data is analysed on the industry level by comparing behaviour by each industry during each business cycle phase with regard to the number of employees, determining whether the companies within the industry behave counter-cyclically or cyclically with a proportional percentage where a significant result is above 60%, indicating it is cyclical or counter-cyclical behaviour, while anything below 60% is considered as balanced behaviour.

ANALYSIS OF THE RESEARCH RESULTS

In analysing data regarding the hiring habits in major companies in the Baltic States, data were reviewed and analysed for the highest point of the economy, expansion of the economy, recession of the economy and the lowest point of the economy. The data analysed differs between all three Baltic States – Estonia, Latvia and Lithuania.

When it comes to hiring habits in Estonia and Latvia, during the highest point of the economy, it was more common in the sectors to perform non-counter-cyclical hiring, while in Lithuania the trend in most industries was to apply cyclical hiring. In Figure 1, the difference can be seen. There are sectors where there is no certain hiring habit.



Figure 1. Hiring habits – highest point of the economy

The three sectors which applied counter-cyclical hiring in Estonia were:

- Electricity, gas, steam and air conditioning supply;
- Real estate activities (100%);

- Water supply; sewerage; waste management and remediation activities.

This partly overlaps with the three sectors which applied counter-cyclical hiring in Latvia:

- Accommodation and food service activities;
- Electricity, gas, steam and air conditioning supply;
- Real estate activities.

During the expansion of the economy, it was more common in Latvia and Estonia to apply non-counter-cyclical hiring, while in Estonia the situation overall within the sectors was very balanced. The overall situation within all three Baltic States has been visualized in Figure 2.

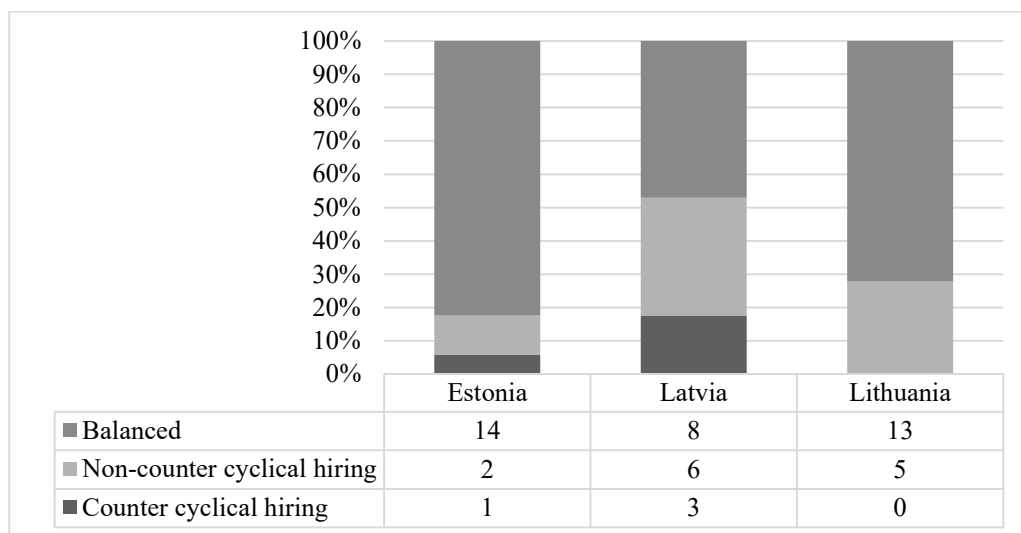


Figure 2. Hiring habits – expansion of the economy

The three sectors which applied counter-cyclical hiring in Latvia were:

- Administrative and support service activities;
- Agriculture, forestry and fishing;
- Electricity, gas, steam and air conditioning supply.

During the recession of the economy, unfortunately, data was available only for one of the three Baltic States – Latvia. During the recession in Latvia, it was more common to apply non-counter-cyclical hiring. Based on the fact that during the highest point of the economy and expansion of the economy there is not always a common trend within all three Baltic States, it cannot be concluded that the situation would be similar in Lithuania and Estonia. An overview of the situation in Latvia can be seen in Figure 3.

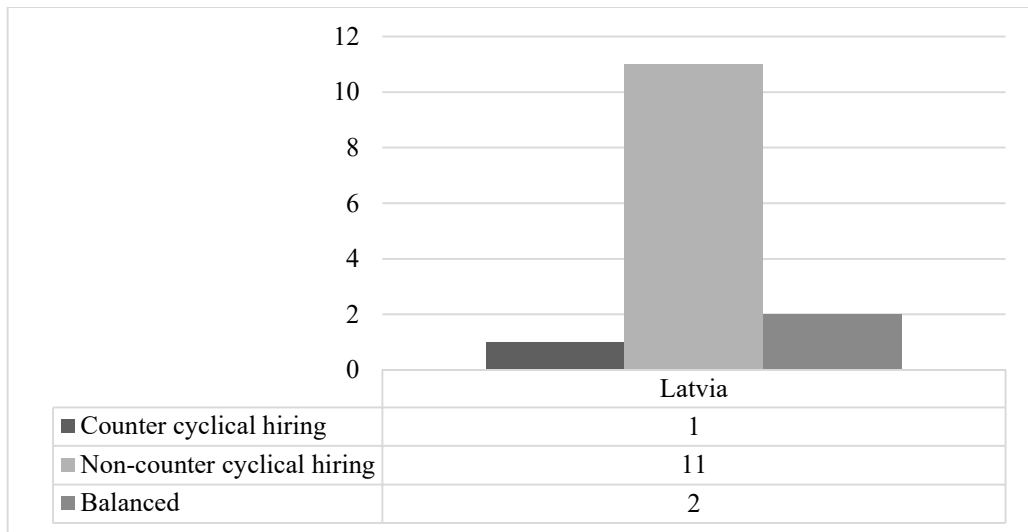


Figure 3. Hiring habits – recession of the economy

During the lowest point of the economy, the situation among the Baltic States varies. In Estonia and Latvia it has been more common to apply cyclical hiring, while in Lithuania it has been more common to apply balanced hiring. The overall situation has been visualized in Figure 4.

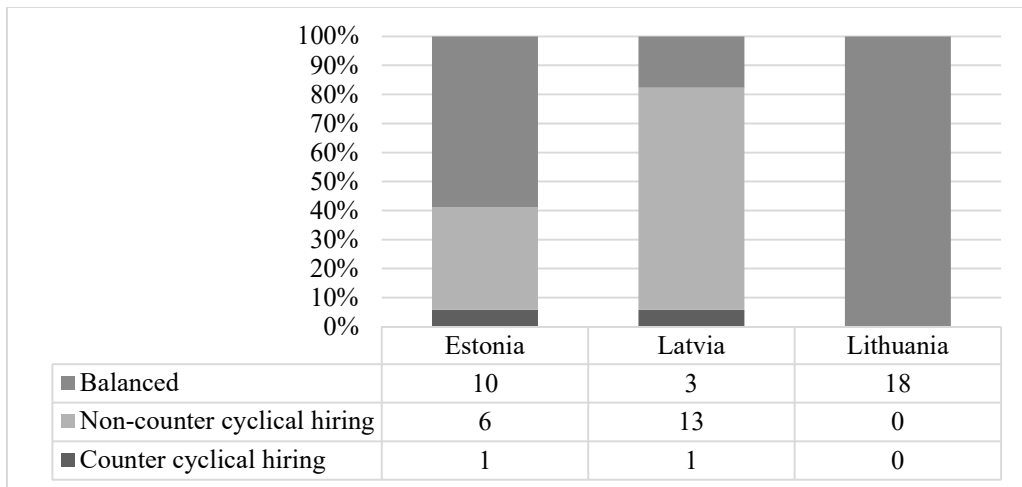


Figure 4. Hiring habits – the lowest point of the economy

In Estonia there was only one sector where it was more common to apply counter-cyclical hiring – agriculture, forestry and fishing – where counter-cyclical hiring was applied in 100% of the companies for which the data has been provided and analysed.

The only sector in Latvia where it was more common to apply counter-cyclical hiring was mining and quarrying.

The reasoning behind cyclical hiring can potentially be explained by the EU financing period of 2007-2013. During the acquisition of EU funds, more employees

were needed. During the planning period of 2007-2013 there were funds intended for agriculture, forestry and fishing, which would explain the need for employees in that industry.

During 2007-2013 investments from EU funds in Lithuania were mainly made in the areas of transport, the environment, social infrastructure, research and innovation, renewable energy and energy efficiency. Jobs were created in the research and tourism industries. Almost 78 500 people connected to new or upgraded wastewater treatment facilities. Also, 1 526 research projects were supported.

During 2007-2013 investments from EU funds in Latvia were mainly made in the areas of transport infrastructure, the environment and business support. It has

been stated that 1 184 start-ups, 153 research projects, and 36 cooperation projects between SMEs and research centres were supported.

During 2007-2013 investments from EU funds in Estonia were mainly made in the areas of the environment, transport infrastructure, education, health and social infrastructure, and research and innovation. It has been stated that nearly 13 700 people were connected to drinking water supply plants and more than 15 800 people were connected to new or improved wastewater treatment facilities.

In summary, more detailed analysis needs to be carried out in order to understand the underlying factors of such behaviour and whether there is any correlation.

CONCLUSIONS

Although the hypothesis stated that major companies in the Baltic States engage in counter-cyclical staffing, the data analysis shows that it is more common to apply non-counter-cyclical hiring during the four different points of the economy. One explanation for the hiring habits may be the funds for different sectors in different periods; however, more detailed and broader analysis is needed.

Lithuania has been very balanced during the majority of business cycle phases, followed by Estonia and then Latvia. There have been some industries that have exhibited counter-cyclical behaviour, which needs to be analysed in more detail. The overlapping industries in Latvia and Estonia are agriculture, forestry and fishing; electricity, gas, steam and air

conditioning supply; and real estate activities. Some industries are more business cycle-sensitive than others, whereas some may exhibit counter-cyclical behaviour during almost the entire business cycle.

It is apparent that there are countrywide differences when comparing industries in different countries. Mainly, industries perform cyclically within economic fluctuations and, in order to provide a meaningful explanation of counter-cyclical behaviour, in-depth research is needed to identify the factors that play a role in a particular behaviour.

Consequently, the author, based on the research results, concludes with recommendations for further research:

1. Take into account companies' operating revenue for comparison purposes to understand whether non-cyclical behaviour has provided any financial gain relative to competitors;

2. Elaborate on the reasons for counter or non-counter-cyclical behaviour for each industry (where apparent anomalies are identified);
3. Continue analysis with more financial and non-financial indicators (e.g. capital investments, financial ratios, shareholder investments, cost analysis);
4. Work on developing a holistic framework for business cycle management where industry-sensitive and generic factors are identified;
5. Compare large enterprises with medium-size enterprises to understand if the behaviour changes and provides better financial results for large versus medium-size enterprises.

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