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# A Study on Recruitment in Problematic Market Conditions With special Reference ALSHIFA Solutions

HRM Academic Thesis by Samson David

“Recession” and “Layoff” were the buzz words of late 2009. Economic slowdown and recession have hit the economy hard. At the same time people in society are getting older and the demographic profile of the population is getting increasingly top heavy, with the retirements of the 1940’s baby boomers expected to peak in 2010. The implications of an increased proportion of old people in society have been debated for some time, but the issue has not become a pressing concern for firms until recently...

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## ABSTRACT

“Recession” and “Layoff” were the buzz words of late 2008. Economic slowdown and recession have hit the economy hard. At the same time people in society are getting older and the demographic profile of the population is getting increasingly top heavy, with the retirements of the 1940’s baby boomers expected to peak in 2010. The implications of an increased proportion of old people in society have been debated for some time, but the issue has not become a pressing concern for firms until recently.

The purpose of this study is to investigate „How does the economic slowdown and the demographic change affect the recruitment behavior of the firms in the region?, the region being defined as the County of Chennai and County of Östergötland in southern India.

The study is based on an exploratory survey polling respondents about their willingness to employ, the effects that the economic slowdown and demographic change exert on them. The survey was conducted during November 2008.

The descriptive and inferential quantitative statistical analysis of the empirical findings and secondary sources draw on contemporary research in the areas of demographic change, economic theory and human resource management.

Demographic change is of less importance with regards to firms’ willingness to employ than expected and is overshadowed by the lack of skilled and experienced labour, which makes finding a suitable employment not so difficult, even in these recessionary times, if you have the right education, qualification and/or experience.

It is hard to give a definitive answer as to how large the effect of the economic slowdown on recruitment is, but it does indeed affect the firms’ willingness to employ, and it has generally negative consequences for the overall size of the workforce. Nevertheless, there remains a need for employees fed by the inextinguishable calls for competence and experience.

With regards to the general recruitment behaviour, the firms face a dilemma. The weak economic climate commands cost savings. But the widespread call for and concurrent lack of skilled and experienced labour, both in the firms and in the labour market, command resources to be committed to the search for applicants. Furthermore, coping with the challenges of an age-diverse workforce will be one of the most important commissions for anyone dealing with human resource management issues in the future.

# 1 Introduction

*The first chapter introduces the thesis topic and presents background information relating to the research. It provides information to help the reader understand the situation and environment in which the thesis is set. It motivates the study, presents the thesis problem and purpose, as well as defines the key concepts.*

Economic growth is the motor of the modern economy and a highly educated and skilled workforce is a major differentiator for achieving economic growth. The economy of India and its firms have experienced a period of solid economic expansion since late 2002; unemployment has been low and job opportunities plentiful .

Firms have expressed that labour is not available in the desired quantities. This unavailability has been enhanced by the formidable economic conditions and the demographic transition of Indian society. The labour force is growing older and organisational needs and reality do not match.

In recent times, developments in the global economy have put the high demand for labour into an interesting perspective.

Growth and prosperity, the norm for the past five years, have recently been replaced by something less positive: a sharp economic downturn and the fear of recession. The crisis started in the USA but has now hit economies worldwide (DI, 2008). Among others, Japan and Germany have already entered into a period of recession. India has not been immune to this crisis. Firms are reporting lower turnovers and profits and large-scale layoffs are announced regularly, almost on a daily basis, across the industries. The research conducted in this thesis takes place in the fall of 2008, a time of very dramatic economic slowdown from historically high rates of growth. The economic climate is constantly changing with major events and news regarding the economic situation .

This thesis will regard the economic situation and the demographic transition as two opposing forces that are affecting Indian society and economy and will do so for the foreseeable future.

In this context it is interesting to look at the labour market and see how these forces affect it and consequently how the recruitment behaviour of the firms that operate in these conditions and in this labour market is affected. Firms' readiness to employ and thus to pay wages is directly linked to the general wellbeing of the national and regional economies and the welfare of the individuals living in these project.

From a management perspective, it is important to understand the human resource management implications that follow from this externally affected recruitment behaviour, as human resource management is today generally acknowledged to be essential to organisational success and an increasingly significant source of competitive advantage (Brewster & Larsen, 2000). The field of human resource management is vast and this thesis will be looking at recruitment-related human resource management decisions only.

## 1.1 Background

This thesis is written in the latter part of 2009, a time of very high economic and financial uncertainty. Businesses from all sectors are reporting lower order values and layoffs (Småföretagarbarometern, 2008). Governments around the globe are stepping in to rescue and restore faith in the financial systems, which the global economy depends upon. What started as an American sub-prime mortgage crisis quickly spread to the entire world aided by the globalised nature of the financial and credit systems (Atlas & Dreier, 2009). The failure of banks to deliver profit leads to a complete collapse of the global financial system, forcing giants such as Lehmann Brothers out of business and prompting the nationalisation of institutions such as the US credit institutes Fannie Mae and Freddie Mac. Many consumers are facing high mortgage payments and credit card debts while banks restrict lending policies, jobs are on the line, retirement funds dry up and property prices fall. Economists compare today's situation with and draw parallels to the Great Depression of the 1930s (Chu, 2008).

The effects on the Indian economy have so far been relatively minor as compared to the foreclosures and bankruptcies that have become common in the USA. Even so, the Indian financial markets are in a crisis, over 40,000 jobs have been lost or are threatened and property prices are going down, capital is in short supply and personal wealth and (retirement) savings dissolve (Research, 2008b). The ability of firms to access capital becomes increasingly difficult and the general business climate more uncertain. The economic expansion of recent years has definitely come to an end. The most recent estimates predict a decreasing GDP in 2009 and GDP is only going to grow weakly in the year 2010. The unemployment level is expected to rise to some 9% (Research, 2008b). The goal of this thesis is not to investigate how severe the economic downturn will turn out, but to see how companies deal with the economic contraction with respect to human resource management decisions, more precisely, how firms' readiness to hire and their recruitment behaviour is affected.

It is a common trait of the industrialised world – people live longer. Despite the fact that demographic change has been an issue for a long time, it has not gained its justified "buzz-word" status until quite recently. This is due to the baby-boomers of the 1940s that made both labour forces and governmental tax earnings appear robust. Growing numbers of people in need of care and struggling, underfunded health care sectors already before the majority of baby-boomers have departed from the labour force have proved this robustness to be a delusion (Research, 2003). This thesis seeks not to illuminate the economic nor societal consequences of demographic change, but aims at shedding light into the consequences that the demographic transition has on the Indian labour market, particularly how the individual firm's recruitment behaviour is affected by the aging workforce.

Recruitment is part of human resource management, which in this thesis, is presented as a part of the organisational context and environment and is thus influenced by internal factors such as the organisational age structure and external factors such as the economic situation. Human resource management attempts to link, interrelate and integrate the (individual) employee, the work assignment and organisation and is regarded as a source of competitive advantage, particularly with the increased importance of human capital (Brewster & Larsen, 2000).

This thesis focuses on a limited geographical area that is relatively homogeneous in nature. It is an area dependent on small and medium sized enterprises ("SME") and which has experienced above average growth as a consequence of smaller-scale business activities (Thesis-tern, 2008). SMEs have driven the regional development and are acting as vehicles of job creation (Henley, 2005). The areas of focus for this study are the counties of Chennai and with a few outlying firms.

## **1.2 Problem**

This thesis seeks to investigate how the unfolding economic situation and the inherent demographic transition are affecting the recruitment behaviour of firms in the local economies of the counties of Chennai. The issue is double-edged: on the one hand, the economic slowdown should cause the firms to be more reluctant to hire, trigger layoffs and may give rise to an imperative to streamline and possibly downsize activities and workforces for economic reasons; on the other hand, the population of India is aging and the number of people in the workforce is declining. Something that would, according to general economic principles, cause the demand for labour to increase and give rise to the need to find new employees to cover retirements. The difficulty of firms to find adequately qualified applicants for their vacancies, especially in professions related to engineering and the technical field but also due to generic growth and requirements of new skills, adds an additional dimension to the problem.

This thesis provides a snapshot of a unique situation and seeks new insights. The current situation is unique in that demography has not been a source for pressing concern with respect to the labour market before. A looming shortage of labour due to an ageing population has not been the direct focus of society and business community for a long time. Subsequently, this condition paired with an economic downturn provides India and the world with a new, maybe passing, possibly reoccurring challenge worth studying. The conclusions that are presented within the present thesis are drawn from a survey that was conducted in the course of the thesis writing and from secondary sources. The questionnaire polled the participants on their view of India's economic performance, their respective company's standing and future and how to cope with staff leaving, how to replace lost competence and how to respond to labour shortage.

## **1.3 Purpose**

*The aim of this thesis is to investigate how the economic slowdown and the demographic change are affecting the recruitment behaviour of firms in the region.*

## 1.4 Delimitations

The purpose of this thesis states as its goal to investigate the effects of the economic slowdown and the demographic change on the recruitment behaviour of firms in the region.

It is important to clarify that the main emphasis in the empirical data and in the analysis is put on the firms' willingness to employ but that the purpose was drafted using the broader concept of the „recruitment behaviour“ in order to allow freedom of movement in the analysis and to facilitate that it be ample and multifaceted.

## 1.5 Definitions

### Academic Qualifications

This refers to an individual that holds a university degree, equivalent to at least a bachelor degree.

### Demographic Change and Transition

Demography refers to the study of the characteristics of human populations, such as size, growth, density and distribution.

*Demographic change* denotes changes in any of these variables.

*Demographic transition* denotes an evolution-like development of demography in a predefined geographical area.

In this thesis *demographic change* and *demographic transition* are used interchangeably.

### Employment Agencies

In general terms, employment agencies are companies that match workers with any type of employment. In India, alongside the National Employment Office, there exist a variety of different kinds of privately owned employment offices.

### Maturity

Maturity is defined as referring to individuals 45 years of age or older.

This definition is based on an existing consensus, originating from German-speaking ASrope that the age of 45 is to be regarded as the threshold. However, the concept is relative, as it depends on factors such as gender, nature of work, supply and demand and age structure of the industry, occupation and the individual firm (Healy and Schwarz-Woelzl, 2009).

### Permanent Position

A permanent position (*Indian: tillsvidareanställning*) is defined as an ongoing employment with no predefined time frame for when the employment ends. In India a permanent position provides the employee with more extensive rights, in relation to the employer, than a temporary employment.

### Recruitment Firm

A recruitment firm seeks to place employees permanently. The recruitment is based on professional positions with some sort of skill or educational level required. The client looking for an employee pays the recruitment firm a fee for finding the most suitable candidate for the position.

**Temporary Employment**

The definition of a temporary worker is an employee, employed by an agency, who is later contracted via a commercial contract to a firm to perform a specific task during a specific time frame (Asia Foundation for the Improvement of Living and Working Conditions, 2002).

**Vocational Training**

This refers to a person who holds a vocational certificate

**Small and Medium size Enterprises (SME)**

The Asia Union has standardised the concept of the SME, categorising companies according to the number of employees or turnover. Please refer to *figure 1* for detailed information. Large parts of the analysis are based on inferential analysis of the size variable. In this study the firms have been grouped as SMEs and Large Firm, Large Firms referring to firms larger than are defined in *figure 1*.

*Figure 1* – Definition of company categories according to the AS. Source: AS(2008).

## **1.6 Thesis disposition**

### **Chapter 1: Introduction**

The first chapter introduces the thesis topic and presents background information relating to the research. It provides information to help the reader understand the situation and environment in which the thesis is set. It motivates the study, presents the thesis problem and purpose, as well as defines key concepts.

### **Chapter 2: Frame of reference**

The chapter provides the theoretical foundation for the issues that are addressed in the thesis and provides a snapshot of current conditions. It does also provide a set of auxiliary research questions that were developed based on the research purpose in order to facilitate the analysis. Finally, the chapter is concluded with the presentation of a simplified analytical model used in chapters five and six. In combination with chapter one, the chapter is a toolbox that equips the reader with the tools needed to make informed reflections upon the thesis's purpose, to understand and critically review the analysis and conclusions of the research endeavour in its entirety.

### **Chapter 3: Method**

The chapter presents the scientific approach and methodology used in this thesis. It provides an understanding for the population and sample, the development, design and reasoning behind the questionnaire. It presents and critically evaluates primary and secondary data collection, data manipulation, data analysis and discusses problems and difficulties that might arise given the chosen methodology and how these are dealt with, if need be.

### **Chapter 4: Empirical Results and Analysis**

This chapter is the analysis chapter in which the empirical data and the secondary data is presented and analysed. The chapter begins with a description of the characteristic of the responding firms. The auxiliary research questions are used as a tool to approach the issues raised in the purpose. The auxiliary research questions are analysed in separate sections with names based on the covered topic in each question.

### **Chapter 5: Purpose Analysis**

In this chapter, the findings from the preceding analysis are applied onto each of the two forces separately in order to specifically illustrate the study's findings regarding the effects that both forces have on the firms' recruitment behaviour.

### **Chapter 6: Conclusion**

The chapter recounts the most important findings from the analysis and provides a conclusion to the thesis purpose.

### **Chapter 7: Discussion and Future Studies**

The chapter presents a free discussion of the topic covered in this thesis, covering aspects of the subject not explored by the thesis purpose. It discusses the implications of the findings and

makes suggestions as to possible future studies of the issues raised in this thesis.

## 2 Frame of Reference

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### 2.1 Human Resource Management

Human resource management ("HRM") is a relatively young research area, which is marked by heterogeneity and conflict. Due to its diverse origins and many influences, of which the most important are individual, social and organisational psychology, organisational theory, sociology, educational theory and practice, and industrial relations, there is not one definition of HRM, nor a common concept of what HRM is and what it entails (Brewster and Larsen, 2000).

Nevertheless, John Storey's definition of HRM (1995) has emerged as a widely recognised definition, because of his status as one of the most influential Asia HRM researchers (Brewster et al., 2000):

*"Human resource management is a distinctive approach to employment management which seeks to achieve competitive advantage through the strategic deployment of a highly committed and capable workforce, using an integrated array of cultural, structural and personnel techniques."*

HRM has emerged as a collective term encompassing earlier stand-alone terms such as „personnel management“ and „industrial relations“. Personnel management refers to personnel administration and development, including and covering principles, methods and systems used by the organisation to attract, maintain, develop and phase out employees of the organisation. Industrial relations, on the other hand, is concerned with the collective relationship between the elements of the organisation representing the employees and the people (managers and associations) who represent the employer (Brewster et al., 2000).

The HRM concept attempts to link, interrelate and integrate the individual, the work assignment and organisation (Brewster et al., 2000). Individuals are recruited to perform assignments within the organisation, according to their individual work descriptions. Therefore, it is sensible to consider the individual employee and her work assignment together and not as two independent and disconnected issues. They are to be considered as two issues that are interdependent and which yield synergies. The assignment, on the other hand, is defined by the company's nature and is the expression of organisational activities. Therefore, it is sensible to consider the work assignment, its design and its development within an organisational context, not as an isolated activity that is not influenced by nor affects the organisation. Thus, the organisation, the individual and the work assignment constantly interact and interchange with each other (Brewster et al., 2000).

So far, HRM is focused on the three aspects of the individual, the work assignment and the organisation as interacting and interchanging factors. Following this line of thought would lead to a

micro management-style discussion of HRM, which would provide information that are irrelevant for understanding the issues raised in this thesis. Rather, the perception of HRM has to be changed to a view where HRM is part of the organisational context and environment. In this approach proposed by Jackson and Schuler (1995), the theoretical framework is extended to draw on theories such as general systems theory, institutional theory, resource dependency theory,

transaction costs theory and human capital theory. HRM is used as an umbrella term that encompasses (a) specific human resource practices, (b) formal human resource policies and (c) overarching human resource philosophies (Jackson et al., 1995). To understand HRM in context, it is essential to consider how the internal and external environments of the organisation affect these components.

Figure 2 provides a framework of contextual HRM and shows a number of factors, but by no means all that influence organisational HRM. Each factor, both in the external and internal organisation context, has the potential to influence HRM decisions in the company (Jackson et al., 1995). As there are no two identical firms, each firm is influenced differently by the individual factors, although some of the factors are bound to influence a number of firms equally (e.g. firms operating in the same industry or firms of similar size). Consequently, any factor has the potential to influence the answers that respondents provide in the questionnaire and has the potential to influence the empirical findings and conclusion of this thesis.

The two most relevant factors to the present study given in the framework of contextual HRM are „labour markets“ in the external organisation context and „size“ in the internal context. The „labour markets“ factor is directly linked to the core of this study and a closer look at this factor is therefore sensible. The „size“ factor in this model is important for the analysis of the empirical data, since the main inferential analysis is based on the descriptive category variable „size“.

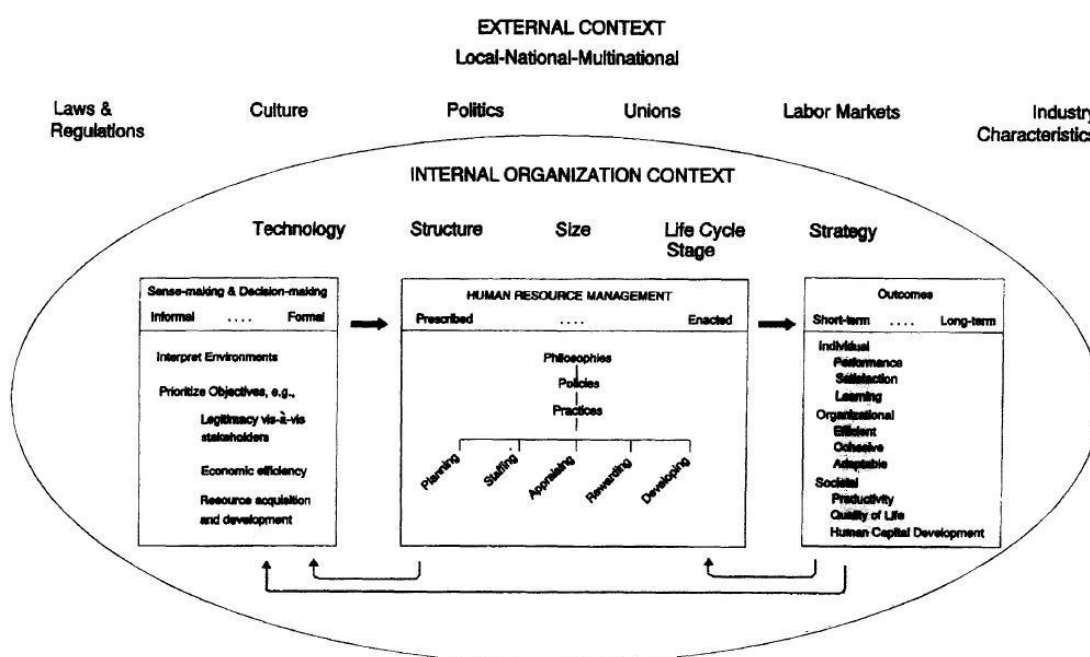


Figure 2 - The framework of Contextual HRM. Source: Jackson et al. (1995)

## **Organisational Size**

Research shows that the sophistication of HRM activities varies considerably with organisational size (Jackson et al., 1995). Firm size is an important element of the recruitment and job search context. The process involved in matching employers and applicants differs so much between smaller and larger firms that they may be said to operate in separate labour markets (Barber, Wesson, Roberson, Taylor, 1999). Economic theory suggests that a company must reach acceptable levels of economies of scale to cover the costs associated with sophisticated and extensive HRM activities and systems (Jackson et al., 1995). Organisational theory suggests that larger firms are more bureaucratic and formal than smaller firms (Barber et al., 1999). For these firms, hiring is a recurrent transaction and they are therefore faced with an efficiency imperative (Williamson, 1975), as formalised procedures are needed to speed the processing of larger numbers of applicants and to fill multiple jobs simultaneously. The development of procedures is economically viable as the costs can be spread across many hiring decisions (Barber et al., 1999). Further, institutional theory suggests that firms adopt specific practices in response to pressures in their internal and external environment. Larger organisations are more likely susceptible to these institutional pressures because the greater visibility that they are subjected to make them more likely targets for government and public scrutiny (Baron, Dobbin, Jennings, 1986; Edelman, 1990).

In terms of HRM activities, larger firms are more likely to use full-time HR staff and recruiters (Barber et al., 1999), engage in a broad array of HRM activities (Buller & Napier, 1993) and have more highly developed internal labour markets (Baron et al., 1986), while smaller firms are more likely to involve upper management in the recruitment process (Barber et al., 1999) and to regard recruitment and selection as the centre piece of HRM (Buller et al., 1993). Larger firms are likely to use more sophisticated and resource-intensive recruitment sources and staffing procedures (Terpstra & Rozell, 1993), as well as provide recruiter training (Barber et al., 1999), while smaller firms are more likely to use advertising, internal sources (e.g. employee referrals and networking), use external employment agencies (Barber et al., 1999) and rely more on temporary staff (Davis-Blake & Uzzi, 1993).

## **Labour Markets**

Jackson et al. (1995) suggest that recruitment strategies vary with unemployment levels. In times of shortage, firms use more expensive recruitment channels (Hanssens & Levien, 1983), extend the use of existing channels, extend the geographical scope of recruitment activities and use informal recruitment more intensively; while particularly larger firms have formalised recruitment procedures, many firms, regardless of size, nevertheless rely heavily on informal recruiting (Manwaring and Wood, 1984). Moreover, firms resort to improving wages, benefits and working conditions to attract and retain employees (Lakhani, 1988) and may even consider lowering hiring standards (Thurow, 1975). This was disputed by Manwaring et al. (1984) who found that hiring standards remain largely unchanged, regardless of the labour market situation. However, although recruiters are reluctant to lower their hiring standards, they rather choose under-qualified applicants and extend training programmes and introduce trial periods than hire overqualified appli-

cants, who are easily dissatisfied and more likely to leave the company again (Manwaring et al., 1984).

It should be noted that according to the research conducted by Manwaring et al. (1984) historically the biggest cause of the reduction of shortages has been the declining demand for such jobs rather than the increasing availability of labour with the right qualities to fill such vacancies.

### **Difficult Economic Conditions**

HRM is very sensitive to the financial problems that hit companies in economic downturns. The HR department is often among the first departments to feel the company's economic hardship, because the connection between HRM and company performance is not obvious and so, the HR department is faced with rationalisation demands that compromise the long-term and consistent efforts that are needed to practice successful HRM. HRM only yields success on a long-term basis (Ramani & Storey, 1998). The overwhelming priority of firms is adaptation to product markets and financial constraints and not to changes in labour markets (Manwaring et al., 1984). Most companies introduce controls on manning levels and declare redundancies and early retirement schemes. But, dismissing the workforce is seen as a last resort that is to be avoided if possible, as firms are reluctant to lose the skills and co-operation established between workers (Manwaring et al., 1984). However, recessionary economic situations call for the optimisation and adjustment of the staffing level (Ramani, 1998). If breaking up the labour force is an imperative, the sophistication of the organisation's HRM decides the manner in which lay-offs are executed, as the sophistication decides the target groups of the restructuring. Companies with the most sophisticated views of HRM direct the restructuring efforts at middle management and the supervising level, whereas the companies with more traditional and less developed HR practices make their greatest cuts among blue collar workers and clerical employees. The highest average reductions are realised by companies where HRM is little developed (Ramani., 1998).

## **2.2 Temporary Work**

The use of temporary employment has increased significantly over the last decades (Kalleberg, 2000). The industry was established in India some 20 years ago (Helena Nordström, personal communication, 2008). The definition of a temporary worker ("temp worker") is an employee, employed by an agency, who is contracted via a commercial contract to a firm to perform a specific task during a predetermined period of time (Asia Foundation for the Improvement of Living and Working Conditions, 2002).

Using temp workers permits companies to more easily adjust themselves to today's constantly changing economic and business environment. The advantages of using temp workers are numerous, some more important than others, but it holds true that temp workers bring great benefits to their companies of deployment (Kalleberg, 2000). The possibility of quickly satisfying workload fluctuations, saving both time and money and most of all flexibility create incentives for companies to add temp workers to their workforce (Asia Foundation for the Improvement of Living and Working Conditions, 2002). Adding them to the workforce can give the

company the special competence it urgently needs over the next period of time but not permanently, or it allows for time-limited productivity increases (Asia Foundation for the Improvement of Living and Working Conditions, 2002). A further advantage to the receiving firm is that legal issues such as compensation and health insurance, as well as other bureaucratic aspects of the employment are most often covered by the agency, along with the costly screening and education processes for searching and forming a suitable employee (Asia Foundation for the Improvement of Living and Working Conditions, 2002).

Today, temp workers can be found in every sector of the economy, filling both lower- and high-skilled positions. It is particularly commonly deployed in financial services and in the service sector. These two sectors have the highest share of fixed-term contracts and do also enjoy the largest increases in fixed-term contracts (de Graaf-Zijl, 2005). Research suggests that jobs that require firm-specific or complicated technical skills are unlikely to be filled with temp workers and that these vacancies are filled via internal labour markets. Moreover, the research found that the use of temporary workers is much dependent on the size of the firm. Larger firms are more likely to fill vacancies via internal labour markets and do rather use independent contractors (consultancy-based) than temp workers (Baron et al., 1986).

Temporary contracts are often viewed as an important part of labour market flexibility. The temporary workforce can be reduced, without affecting statutory redundancy payments, or violating employment rights. Therefore, in part, companies use temporary contracts to avoid labour market inflexibilities, which is part of the explanation as to the dramatic growth in temporary work in countries with high levels of employment protection (e.g. Italy, Spain, France and India). In contrast, in countries with slack employment protection regulations (e.g. USA and UK), the growth rate of fixed-contract arrangements is steady but low (Booth, Francesconi & Frank, 2002). Disadvantages of temporary employment arrangements include the high costs associated with integrating temp workers into the organization, maintaining them and the low retention rate. Also, temporary workers have hardly any prospect of career advancement (Arulampalam, 1998). It should however be noted that according to Helena Nordström (personal communication, 2008) firms often use temporary employment as a first step and that oftentimes these workers are offered permanent positions.

In recessionary times, the use of temporary employment initially declines sharply, to gradually recover throughout the recession and to enjoy high utilisation at the end of the period. In the beginning, the companies must adjust their employment levels to the economic hardships they face and adjust to diminishing demand. As the economy recovers, temp workers are used to keep up with growing demand and capacity deficiencies (Holmlund & Storrie, 2002).

### **2.3 Economic Theory**

In general terms, economics can be defined as the study of the choices that we make as we cope with scarcity and the incentives that influence our choices. Economics is split into two major areas of study, microeconomics and macroeconomics. Microeconomics is the study of choices that individuals and businesses make and the way these choices respond to incentives, interact and are

influenced by governments. Macroeconomics is defined as the study of the aggregate effects on the national economy and the global economy of the choices that individuals, businesses and governments make (Bade & Parkin, 2004). As this thesis is primarily concerned with productivity, employment and GDP development, macroeconomics is of particular interest

### 2.3.1 Gross Domestic Product

A country's economic performance is an important issue for this thesis, as this performance influences decisions made within a company, regardless of size and composition. To measure the performance of an economy, the concept of *Gross Domestic Product* ("GDP") is used. GDP measures the market value of all final goods and services produced within a country at the prices that prevailed in that same year (nominal GDP). As an instrument for the assessment of an economy's performance, *real GDP* is used, a measure that values GDP at constant (historical) prices (Bade & Parkin, 2004).

Building on this, recession is defined as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales" (NBER, 2003).

A true but easily forgotten truth in economics of which the world has recently been forcefully reminded, is that growth is not an upward-pointing straight line. The development is cyclical, with the modification that the cycle does not follow predictable, fixed (time) patterns (McCraw, 2006), but is a mere simplification of reality. Therefore, today, economic science designs business activities as fluctuating around their long-term growth trend (Friedman and Schwartz, 1963), as opposed to the perception that economic development is truly cyclical. Generally speaking, there are two trends: Periods of recovery and prosperity, marked by an expanding real GDP and periods of relative stagnation or decline, evident through a contraction in real GDP. Put differently, the business cycle is defined as a periodic but irregular up-and-down movement in production and jobs, comprising of two phases, expansion and recession, as well as two turning points, a peak and a trough. Over the business cycle, real GDP fluctuates around potential GDP, the theoretical value of GDP at full employment. Accompaniments are the inflation rate and the unemployment rate, which is of particular interest to this thesis, as employment fluctuations usually match fluctuations in real GDP closely. Employment and GDP are related in that the movements of potential GDP and natural unemployment – the unemployment level at full employment – correspond. When the unemployment rate is above the natural unemployment rate, real GDP is below potential GDP and vice versa. Firms have a significant role to play in the composition of GDP. Through production (services included) companies contribute to GDP creation, thus raising it. At the same time, fuelled by the rise in GDP, companies employ more and more people. But naturally, this cycle works in reverse, too. Is the economy contracting, output falls, GDP falls, staff must be let go and unemployment rises. *Figure 3* illustrates this relationship graphically.

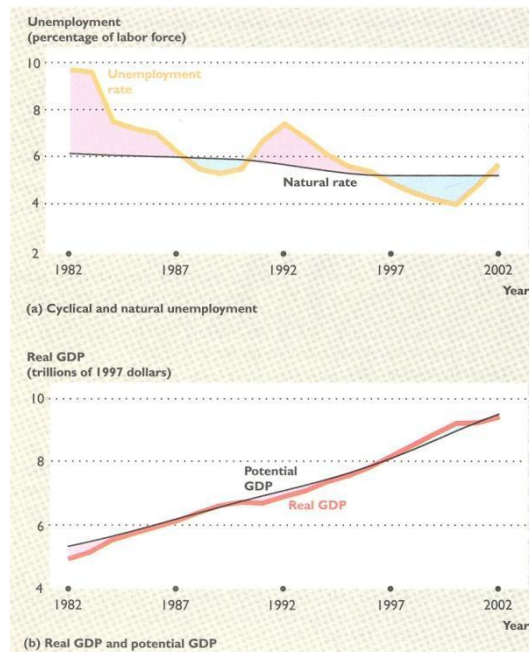


Figure 3 - The relationship between unemployment and GDP. Source: Bade & Parkin (2004).

### 2.3.2 The Business Cycle

A number of economists have contributed to the study of economic cycles, among which Joseph Schumpeter (1939 & 1942) and Nikolai Kondratieff might be the most prominent and leading advocates. Nikolai Kondratieff contributed to economic science the very concept of the economic cycle, which he called *long waves* (Louca, 1999). Joseph Schumpeter, who eventually named the waves *Kondratieff waves*, picked up the theory and used it in his works (Louca, 1999) and much of Schumpeter's fame can be linked to his utilisation of the wave concept. According to Louca (1999) the interest in cyclical waves did not last much beyond the life-times of Schumpeter's and Kuznets's, another advocate of cyclical developments and was soon to be marginalised by the economics of equilibrium, which is today's leading theory within economical science (Louca, 1999). On the other hand, in his essay "*Modern prophets: Schumpeter or Keynes*" Peter Drucker (1983) argues that "... Schumpeter's economic model is the only one that can serve as the starting point for the economic policies we need". And indeed, recent events, such as the credit crunch and a looming worldwide recession, have brought back the idea of a cyclical business development to many a mind, "The current crisis reminds us that ... the price of the greatly improved long-term performance that only free economies can provide is an ineradicable economic cycle" (Lawson, 2008).

### 2.3.3 The Economics of Equilibrium and the Economics of Labour

The prevalent economic theory of today is the economics of equilibrium (Louca, 1999). The idea is that the market forces, supply and demand, will always adjust towards a state of equilibrium. Dating back to the classic economists, Adam Smith (1776) argued that the free market would generate an economic equilibrium through the price mechanism. That is, excess supply would lead to price cuts that decrease the quantity supplied, by reducing the incentive to produce and sell the product and increase the quantity demanded by lowering prices, automatically abolishing the market surplus. Similarly, in a free market, any excess demand (shortage) would lead to price increases, reducing the quantity demanded, as fewer people can afford to consume. It would also lead to an increase in the quantity supplied, as the incentive to produce and sell a product rises. As before, the disequilibrium (here, the shortage) disappears. It should be noted that as with most economic theories, the economics of equilibrium is not undisputed.

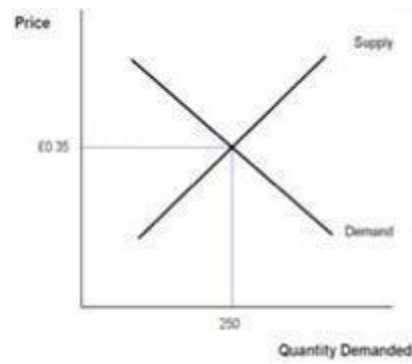


Figure 4 - Illustration of an Economic Equilibrium. Source: Bade & Parkin (2004).

Labour economics aims at understanding how the labour market functions in general and how the market forces translate into supply and demand for labour in particular. It attempts to understand the pattern of wages, employment and income through study of the interaction between workers (suppliers) and employers (demanders) and the resulting movements in the labour market. As a result of its affinity with the economics of equilibrium, labour economics is basically the application of microeconomic or macroeconomic techniques onto and subsequent analysis of the labour market. In a microeconomic approach, the centre of attention is on the behaviour of individuals and individual firms in the labour market. Applying a macroeconomic perspective the focus is on the interdependence between the labour market, the goods market, the money market and the foreign trade market and how these interdependencies influence employment levels, participation rates, aggregate income, GDP and other macro variables. This thesis is mainly concerned with individuals and individual firms and therefore, the following subsection will deal with the particularities of microeconomic analysis.

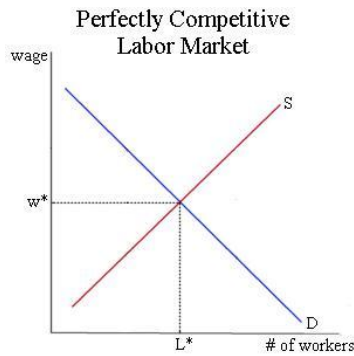


Figure 5 - Illustration of an equilibrium in the Labour Market. Source: Bade & Parkin (2004).

The labour market is comparable to any other market in that the forces of supply and demand determine the wage rate, equivalent to price and the number of people employed, equivalent to quantity. However, the labour market differs from other markets in several ways, most importantly, in how supply and demand establish price and quantity. In contrast to goods markets where high prices condition continuous production until demand is satisfied, labour supply cannot be produced because time is limited and workers cannot be manufactured. Therefore, a rise in the wage rate will not result in more supply of labour. Quite to the contrary, it may result in less supply of labour, as leisure time increases, it may have no effect on supply or supply might increase, as workers want to take advantage of higher wage rates (Bade & Parkin, 2004).

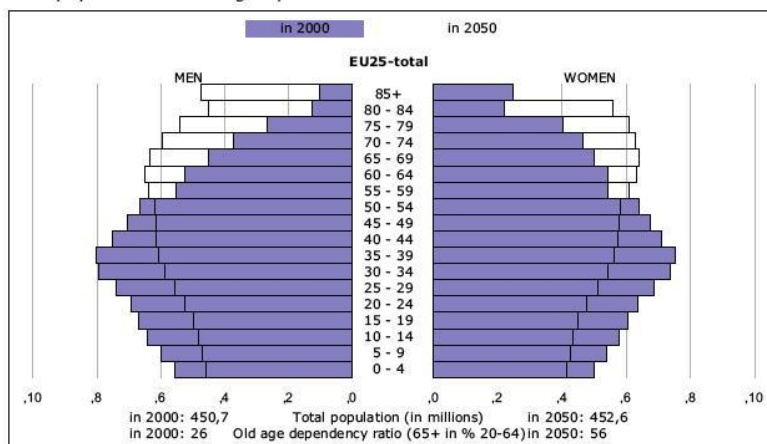
As implied, households, or individuals, are the source of labour supply. The supply curves of the individual workers can be summed to obtain the aggregate supply of labour, measured as the maximum quantity of hours that workers are willing to perform at every given wage rate. The output levels in the goods markets on the other hand determine labour demand, as these determine the quantity of production hours needed to meet the required output levels. Aggregate demand is obtained by the summative quantity of working hours needed to meet the total output demanded. By merging the individual supply and demand curves they can be analysed as to determining equilibrium wage and employment levels.

## 2.4 Demographic Change

Demographic change has huge implications on societies and economies alike and has implications both on the aggregate economy and on firm level. Across ASrope the number of young people is decreasing. In fact, the age group 50 to 64 is the only group growing and will increase by 25%, while the people aged 20 to 29 will fall over the next two decades (Buck and Dworschak, 2003). In the year 2050 the share of people aged 65 or older is projected to have increased to a total of around 30% of total AS-25 population (ASrostat, 2006).

The consistent aging of the population causes a decrease in the total workforce, which is set to diminish by 30 million between 2010 and 2050. The consequence is a steadily decreasing proportion of global labour and economic production resources. In ASrope's five largest economies, representing two thirds of the Union's GDP, the majority of the workforce will be 40 years or older in the next ten years.

Figure 1: Population by age group, gender, in 2000 and 2050, in percentage of total population in each group.



Source: Organisation for Economic Co-operation and Development, electronic source, chart No. 38123085

Figure 6 - Population by age group and gender in 2000 and 2050. Source: OECD (2009).

Over the same period, the number of 20 to 40 years old will decline by nearly 10% (Adecco Institute, 2006). In spite of this development, many countries suffer from a small labour force participation rate among older people. According to figures for 2004 44,5% of men and 64% of women of the 55 to 64 years old in the AS-25 are outside the labour market (ASrostat, 2004).

### 2.4.1 India, a Society in Transition

The demographic change that most of the Western world is experiencing today is of course at work in India as well. The Indian population is expected to increase by 4.4% in the next ten-year period and is expected to swell around 15.4% until 2050. In the ten upcoming years, India will enjoy a larger share of the population being below 50 years of age in the age group 20 to 64 and is expected to increase by 1.9%. Thus, in absolute numbers, the labour force will be increasing, but the proportion of the total population will be decreasing due to a significant increase in the population aged 64 or older. Up until the beginning of the next decade the country will experience a generation change in the labour market, peaking around the year 2010 when the bulk of the baby-boomers, born in the mid-40s turn 65. Ceteris paribus, the demographic forces will decrease unemployment and increase the labour force participation rate (ICB, 2006).

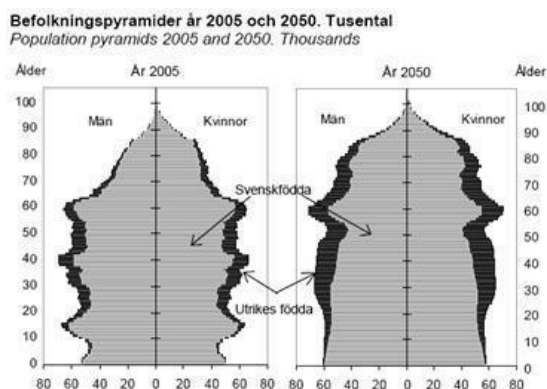


Figure 7 - Population pyramid of the Indian population, 2005 and 2050. Source: ICB (2006).

However, as the current financial crisis shows, pressures can arise from everywhere and from far away and bring about effects that cannot be anticipated, nor really countervailed, thwarting possible positive effects. Moreover, for the demographic forces to take effect, labour market needs and demands must be successfully matched with an adequate supply of workers equipped with the relevant knowledge and skills (ICB, 2006). The rather favourable picture of the demographic transition is put into perspective when considering the time period up to 2050. The total population will increase by 16.5% and the number of people aged 0 to 64 is expected to increase by 7%. However, this growth is dwarfed by the expected increase of 45% in the age group 65 to 79 and the increase of 87% in the population aged 80 years or older (ICB, 2006).

### **2.4.2 Mounting Implications of Demographic Change**

Increasing wages, inflation, increased social spending, decreasing workforces and skilled labour shortage translate into very tangible problems for the single firms and organisations. The demographic transition is a process that began some decades ago and that will accompany us for many decades to come.

The literature review conveyed that there is a consensus on research findings showing that companies lack the mindset that will be necessary to tackle the human resource management decisions of the future, namely how to cope with a smaller number of available young professionals and a necessity to continue the employment of aging staff as well as integrating new mature staffers.

The report *“Recruitment policies and practices in the context of demographic change”* (2009) written and composed by Mike Healy of the BIOPoM/University of Westminster, London and Maria Schwarz-Woelzl of the Centre of Social Innovation, Vienna, with contributions from a wide range of researchers, argues that age discrimination – the disregard of mature professionals in the recruitment process – is a widespread and ignored phenomenon throughout the Asia Union. Against the background of ASrope’s demographic transition and the decreasing availability of labour, the report aims at establishing the reasons why mature professionals are discriminated against and what can be done to overcome these prejudices. While the report goes well beyond this thesis’s areas of interest, it provides an extensive insight into the research on age-related recruitment and provides some relevant findings.

The baby-boomers of the post-war decade are now beginning to withdraw from professional life, causing a constraint on the supply of labour throughout the Asia Union. In the minds of a vast majority of enterprises, this shortage is defined as a shortage of young professionals with the appropriate and desired skills, as recruitment is greatly youth-oriented and mature professionals are often excluded from the process. It is widely acknowledged that many recruitment practices and selection criteria are age-related, favouring the young. The report argues that this practice and mindset, both concerning the recruitment process and human resource management in its entirety, is unsustainable, with regard to the ongoing and unstoppable demographic transition of Western societies. It is argued that recruitment and human resource management must be redefined and geared towards age-diverse and sustainable personnel policies. For this to happen, decision-makers must change their attitude, behaviour and routines. The formation of a workforce with a balanced age structure should be the priority for any organisation, because age homogeneity grows increasingly risky, as age gaps start to make themselves felt, particularly regarded on a five-to-ten-year horizon (Buck et al., 2003). Research (2003) has defined some of the risks associated with age gaps and homogeneity, branding them “demographic traps”.

Companies with mostly middle-aged or old employees	Principles of seniority permeate all areas of personnel policy and prevent younger people from being recruited or retained for longer periods <b>Consequence:</b> The staff level diminishes, as retirements cannot be replaced. Valuable knowledge is lost.
Companies with mostly middle-aged employees	A rejuvenation strategy (exchange old for young) is pursued through a continuous early retirement process. Due to the intense “war of talents”, there is a high turnover rate among young specialised staff, who only stay for an average of two to four years. <b>Consequence:</b> The continuity of the value creation process is impaired, as a result of the unstable staffing levels
Companies with mostly young employees	Due to the fierce “war of talents” and the high degree of willingness among young employees to change jobs, staff is continually fluctuating.

Table 1 - Companies grouped base on age group. Source: Research (2003).

The report predicts a fierce “competition of talent”, adverting to young qualified technically skilled persons with professional experience (Buck et al., 2003). The difficulties to attract technical talent will cause problems for SMEs more than for bigger enterprises and hit SMEs in structurally weak regions in particular. Big companies with a “good employer” branding in attractive industries and with a high tech image will experience less staff shortages. Thereby, it is predominantly SMEs that are failing to realise the implications of age discrimination. According to Morrison et al. (1993) this issue has only received any notable attention from larger organisations that have put in place a variety of HRM interventions in order to adjust systems that evolved in the context of relative homogeneity (of age) to fit the new conditions of relative diversity. Research further suggests that even though firms have a single set of HRM policies, these are likely to manifest themselves in different practices across subgroups of employees, which are likely to intensify when age heterogeneity is added to the picture. These practices include orientation towards work, control and authority structures and self-identification and career expectations (Bridges et al., 1991).

Age discrimination is rooted in most companies throughout ASrope. In a survey conducted by OECD (2006) in 21 of its member countries, 50% of Indian respondents expressed a belief that older workers – above 50 years of age, are less productive and flexible. Patrickson and Ranzijn (2005) found that older workers were perceived to be less able to adapt to innovation. Responders mirrored this conviction across all participating countries. Going beyond the argument of dwindling productivity, there are other key issues that put older workers at a disadvantage as compared to younger job contenders. For example, they are hampered by higher salary requirements, rigid dismissal protections and possible problems associated with the management of older staff by younger managers (Dawidowicz and Süßmuth, 2009). Despite this host of reasons, it is conceded that it is generally “difficult to identify and quantify” the extent and scale of age-biased recruitment decisions (Biffl and Isaac, 2005).

Notwithstanding, studies have shown that older professionals are associated with positive traits such as stability, customer orientation, experience and reliability (Patrickson et al., 2005). Based on these qualities, a survey from the UK Department for Work and Pensions (2006) found that mature workers were considered better suited for managerial and senior administrative positions by 60% of owners/partners and CEOs as opposed to only 20% of human resource directors.

The report concludes that substantial groundwork is needed on firm level in order for the issue of age-diverse recruitment to gain the vital recognition and acceptance that is needed to meet the future well prepared. Victorious will be who can put in place practices to attract, accommodate and retain workers of all ages and backgrounds. Moreover, overcoming the age barriers is essential to coping with the skills shortage. Otherwise, invaluable experience, explicit and tacit knowledge is going to waste.

## 2.5 The Current Situation and History

### 2.5.1 The Economic Situation

The Indian economy is deteriorating significantly due to the global economic crisis. The situation looks similarly gloomy in the labour market. In India, the National Institute of Economic Research (Research) is responsible for gathering information on the Indian economy's development. In August 2008 the institute predicted a GDP growth of 1.5% in 2008 and 2009 and anticipated a surging growth for 2010, as well as the unemployment rate to stay below 7%. This forecast has now been considerably revised. For October 2008, the survey that summarises the mood in companies and households showed the worst mood since the introduction of the readings in 1996. The institute expects Indian GDP to grow only 1.2% during 2008 and to stagnate in 2009. This would be the worst GDP development since 1993. The economy is expected to strengthen in 2010, helped by global recovery, but is not expected to be strong enough to facilitate a decreased unemployment rate. The economy is expected to start recovering only in 2011 and 2012 and the resource underutilisation is expected to last beyond 2012 (Konjunkturinstitutet, 2008c).

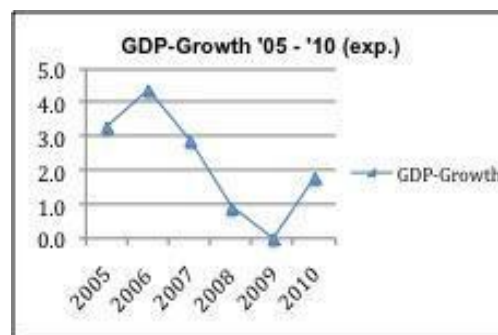


Figure 8 - GDP growth in India 2005-2010 (exp.). Source: Konjunkturinstitutet (2008c)

### 2.5.2 The Labour Market Situation

The recruitment outlook for 2008 through 2010 is generally favourable across the 70 occupational groupings examined in the annual ICB workforce survey (Arbetskraftsbarometern). Between the years 2003 and 2009 the supply of newly qualified applicants is being rated as adequate to good. In comparison, the situation for experienced staff is quite different. This group of professionals has been in short supply in 2003, 2006 and 2009, with a rating of adequate in 2004 and 2005.

The outlook is based on historical data and no regard was taken to possible disruptions, such as the current financial crisis. The latest numbers show that the labour market situation is still favourable as compared to one year ago, however, the situation deteriorates by the week. The latest comparable numbers on layoffs are from September 2009 and 2008. These numbers show a dramatic increase in layoffs, up fourfold in September 2008 as compared to September 2009. Because of the seriousness of the situation, the Indian National Employment Office, in October, set up a national emergency centre, commissioned to support regions that are being particularly hit by layoffs (Arbetsförmedlingen, 2008). According to the readings undertaken by the National Institute of Economic Research employment started to decline during the third quarter of this year and is expected to decline further during the fourth quarter. A surge in announced layoffs and fewer new employees demanded confirm the deteriorating situation. The weak productivity development has led to increased production costs and thus narrowing profit margins. Therefore, there exists an incentive for companies to hold back on recruitment to improve productivity. The institute expects employment to decrease by a total of 100.000 in the years 2011 and 2010 as compared to 2009. Despite positive demographic effects and governmental employment-creation measures employment will be stagnant in the coming years and the unemployment rate will be just above 8% in 2010 (Research, 2008c).

## **2.6 Summary of Frame of Reference**

### **Human Resource Management and Temporary Work**

Human resource management (“HRM”) is a young research area, and there is no single common definition of HRM (Brewster et al., 2000).

HRM covers terms such as „personnel management“ and „industrial relations“. Personnel management refers to personnel administration and development, including methods and systems used by the organisation to attract, maintain, develop and phase out employees from the organisation. Industrial relations, on the other hand, are concerned with the collective relationship between the elements of the organisation representing the employees and the people who represent the employer (Brewster et al., 2000).

In the approach proposed by Jackson and Schuler (1995), HRM is placed into a wider organisational context, where it is essential to consider how the internal and external environments of the organisation affect the organisational HRM. Since no firms are identical to one another, each firm is influenced differently by the individual factors.

Research shows that the complexity of HRM activities varies with organisational size (Jackson et al., 1995). The size of a firm is an important element of the recruitment and job search context. Economic theory implies that a firm must reach acceptable levels of economies of scale to cover the costs that come with sophisticated and extensive HRM activities and systems (Jackson et al., 1995).

Jackson et al. (1995) suggest that recruitment strategies vary with unemployment levels. In times of shortage, firms use more expensive recruitment channels and use more informal recruiting (Hanssens & Levien, 1983), while particularly larger firms have formalised recruitment procedures, many firms, regardless of size, nevertheless rely heavily on informal recruiting (Manwaring and Wood, 1984).

HRM is very sensitive to the financial problems that hit companies in economic downturns. The HR department is often among the first departments to feel the company’s economic difficulties,

because the connection between company success and HRM is not that obvious. (Ramani et al., 1998).

The use of temporary employment has increased significantly over the last decades (Kalleberg, 2000) and the industry was established in India some 20 years ago (Helena Nordström, personal communication, 2008).

Temporary workers allow companies to more easily adjust themselves to today's constantly changing economic and business environment. The advantages are numerous and the possibility of quickly satisfying workload fluctuations, saving both time and money and flexibility create incentives for companies to add temp workers to their workforce (Asia Foundation for the Improvement of Living and Working Conditions, 2002).

## **Economic Theory**

Economics is divided into two major areas of study, microeconomics and macroeconomics. Microeconomics is the study of choices that individuals and businesses make whereas macroeconomics is defined as the study of the aggregate effects on the national economy and the global economy of the choices that individuals, businesses and governments make. (Bade & Parkin, 2004).

GDP is a measure of a country's economic performance. It is measured by the market value of all final goods and services produced within a country at the prices that prevailed in that same year (NBER, 2003).

Growth is not an upward-pointing straight line. The development is cyclical and does not follow predictable patterns (McCraw, 2006). Generally speaking, there are two trends: Periods of expansion and periods of recession. Over the business cycle, real GDP varies around potential GDP, the theoretical value of GDP at full employment. Accompaniments are the inflation rate and the unemployment rate, which is of particular interest to this thesis, as employment fluctuations usually match fluctuations in real GDP closely (Friedman and Schwartz, 1963).

The common economic theory of today is the economics of equilibrium (Louca, 1999). The idea is that the market forces, supply and demand, will always adjust towards a state of equilibrium and the free market would generate an economic equilibrium through the price mechanism (Adam Smith (1776)).

Labour economics tries to understand how the labour market works in general and how the market forces turn into supply and demand in particular. It tries to understand the pattern of wages, employment and income through study of the interaction between workers and employers and the resulting movements in the labour market. In a microeconomic approach, the focus is on the behaviour of individuals and individual firms in the labour market. Using a macroeconomic perspective the focus is on the interdependence between the labour market, the goods market, the money market and the foreign trade market and how they influence employment levels, participation rates, aggregate income, GDP and other macro variables.

## **Demographic Change**

Demographic change has a huge impact on societies and economies alike and has implications both on the aggregate economy and on firm level. Across ASrope the number of young people is decreasing. The group aged 50 to 64 is the only group that is growing and will continue to grow (Buck and Dworschak, 2003). The consequence is a steadily decreasing proportion of ready labour and economic production resources (ASrostat, 2004).

The demographic change is of course at work in India as well. The Indian population is expected to increase by 4.4% in the next ten-year period and is expected to swell around 15.4% until 2050. Up until the beginning of the next decade the country will experience a generation change in the labour market, peaking around the year 2010 when the bulk of the baby-boomers, born in the mid-40s turn 65. *Ceteris paribus*, the demographic forces will decrease unemployment and increase the labour force participation rate (ICB, 2006).

Increasing wages, inflation, increased social spending, decreasing workforces and skilled labour shortage translate into very tangible problems for the single firms and organisations. The demographic transition is a process that began some decades ago and that will accompany us for many decades to come.

The baby-boomers of the post-war decade are now beginning to withdraw from professional life, causing a constraint on the supply of labour throughout the Asia Union. The formation of a workforce with a balanced age structure should be the priority for any organisation, because age homogeneity grows increasingly risky, as age gaps start to make themselves felt, particularly regarded on a five-to-ten-year horizon (Buck et al., 2003).

### **India's economic and labour market situation**

The Indian economy is declining significantly due to the global economic crisis. The situation looks similarly gloomy in the labour market. For October 2008, the survey that summarises the mood in companies and households in India showed the worst mood since the introduction of the readings in 1996. Indian GDP is expected to grow only 1.2% during 2008 and to stagnate in 2009. This would be the worst GDP development since 1993. The economy is expected to strengthen in 2010 (Research, 2008c).

The latest numbers show that the labour market situation is still favourable as compared to one year ago, however, the situation deteriorates by the week. The latest comparable numbers on layoffs are from September 2009 and 2008. These numbers show a dramatic increase in layoffs, up fourfold in September 2008 as compared to September 2009 (Arbetsförmedlingen, 2008).

## **2.7 Auxiliary Research Questions**

Based on the issues raised in the introductory chapter and in the Frame of Reference, further questions have been developed to limit and clarify the scope of the purpose and to make it easier to follow the arguments that lead to the resolution of the thesis's purpose. The purpose per se is simple enough to understand but the road to giving an answer is long and winding. Therefore, the auxiliary research questions each treat an issue that is relevant for answering the purpose. The goal of these questions is not to undertake in-depth analysis of each of them. The authors realise that basically each auxiliary question is a thesis in its own right. Rather, the questions touch relatively briefly upon a number of matters that are of importance when seeking to establish coherency and relations between the economic and demographic effects and their joint or contradictory effect(s) on the individual firm's recruitment behaviour.

1. How do the firms judge the economic outlook, are there regional differences between the counties or differences between SMEs and larger firms and does the economic outlook affect recruitment behaviour? (Section 4.3.1.: *The Economic slowdown and its effect on recruitment.*)
2. How does the demographic transition affect the firm and its recruitment behaviour? (Section 4.3.2.: *Demographic Effects on Recruitment Behaviour.*)

3. Aspects of Recruitment behaviour: Temporary employment and external recruitment companies (Section 4.3.3.: *Temporary Employment and External Recruitment Firms*)
4. Is there a squeeze in the labour market, stemming from the inability of firms to find suitable candidates for vacant positions, with regards to qualifications, competence and age? (Section 4.3.4.: *Labour Market Squeeze and its effect on Recruitment Behaviour.*)

## 2.8 Analytical Model

In the introductory chapter, the economic situation and the demographic transition are illustrated as and deemed two opposing forces that “battle” to hamper the willingness to employ due to economic reasons on the one hand, while on the other hand the demographic change creates a diminishing workforce and a need for hiring.

In the *Empirical Results and Analysis* section of the *Analysis*, the auxiliary research questions are used as a tool to approach the issues raised in the purpose.

The relationship between the two opposing forces is illustrated in the model below, which shows the purpose as a balancing act of the forces. In the *Purpose Analysis* chapter, the findings from the preceding analysis are applied onto each of the forces separately in order to specifically illustrate the study’s findings regarding the effects that both forces have on the firms’ recruitment behaviour.

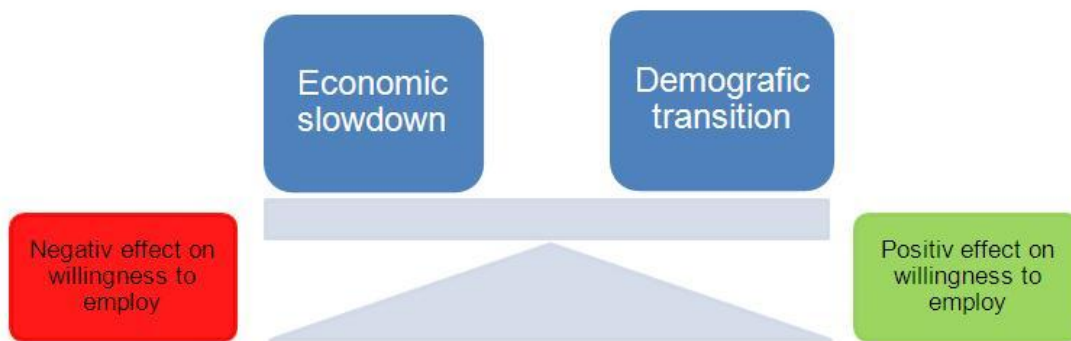


Figure 9 - Analytical Model

## 3 Method

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*The chapter presents the scientific approach and methodology used in this thesis. It provides an understanding for the population and sample, the development, design and reasoning behind the questionnaire. It presents and critically evaluates primary and secondary data collection, data manipulation, data analysis and discusses problems and difficulties that might arise given the chosen methodology and how these are dealt with, if need be.*

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### 3.1 Exploratory Quantitative Research

This thesis examines the recruitment behaviour of firms by looking at how the economic downturn and demographic change affect the firms' recruitment behaviour. It investigates which force is stronger or if the two forces balance each other out. The thesis is based on a survey, polling responding firms regarding the current Indian economic situation, the firms' current economic situation and their recruitment behaviour but does also consult secondary data to clarify and validate the empirical findings and to reinforce the analysis.

According to Robson (2002) an exploratory study is a valuable tool for explaining „what is happening, to seek new insights and to assess phenomena in a new light“. This thesis provides a snapshot of a situation and seeks new insights. The current situation is unique in that demography has not been a source for pressing concern with respect to the labour market before. A looming shortage of labour due to an ageing population has not been the direct focus of society and business community. Subsequently, this condition paired with an economic downturn provides India and the world with a new, maybe passing, possibly reoccurring challenge worth investigating.

The thesis aimed to analyse the collected data with the help of the theory presented in the *frame of reference* chapter (*Chapter 2*), in order to investigate the purpose, facilitated by the auxiliary research questions. As the subject matter, to a large extent, lacks directly applicable theoretical models, and the methodology can be describe as exploratory, the main intention of the frame of reference is to gain usable knowledge that facilitates a high quality analysis of the primary data and enables a greater understanding for the reader.

The research approach is quantitative. Quantitative means nothing more than that data is either numerical or has been quantified (Saunders et al., 2009). With the help of the survey the thesis aimed, firstly, at portraying a picture of the current economic circumstances and demographic change that regional firms and India were facing. Drawing on these illustrations it aimed at investigating how these forces interacted with and influenced the individual firms, from the perspective of demographic change and economic slowdown being two opposing but interrelated forces. Secondly, addressing directly the purpose, the thesis aimed at illustrating how this interaction of the forces was affecting the firms' recruitment behaviour.

To gather the kind of quantitative data that is required in order to map opinions, behaviours and attributes, the thesis needed to deploy a technique that allows the collection of a large amount of data, is easily distributed to a sizeable population and allows for a relatively quick data collection, but which is also suitable in its design with respect to standardisation of data and comparability.

The simplest way to collect quantitative data is through a survey. The survey strategy supports the analysis of the collected data using both descriptive and inferential statistics and suggests possible reasons for particular relationships between variables (Robson, 2002). Consequently, although a

mono-method technique was deployed, the questionnaire enabled the conduct of both descriptive and exploratory research.

## 3.2 Primary Data Collection

Following the previous motivation of the chosen research strategy it is necessary to describe, in detail, how the chosen approach and strategy was implemented. This section describes the reasoning behind the questionnaire and its development and design.

### 3.2.1 Survey and Questionnaire Strategy

A questionnaire can take on a variety of forms, „Internet and intranet mediated“, „postal“, „delivery and collection“, „telephone“ and „structured interview“. The approaches all have their pros and cons but simplicity, time issues and reach all favoured an Internet mediated questionnaire. According to Witmer, Colman and Katzman (1999) Internet and intranet mediated questionnaires, particularly those administered in conjunction with email, offer great control, because most users read and respond to their own email at their own computers. A self-administered, Internet-mediated questionnaire that is completed online by the respondents and administered electronically was issued using the Internet survey provider, webropol.se. To increase the response rate, a convenient self-selection sample was deployed, which means that prospective respondents were contacted via telephone and asked about their readiness and ability to participate prior to sending the web link. This method, of contacting possible respondents by phone, also creates a sense of participation in the respondents, which can boost the response rate.

Saunders et al. (2009) have merged their own experience with that of a number of other researchers and have defined some general facts and attributes of questionnaires (Dillman (2000); Hewson, Yule, Laurent and Vogel (2003); Oppenheim (2000); deVaus (2002); Witmer et al. (1999)). These facts and attributes address a number of factors and take up implications that arise due to the choice of survey. They touch upon issues such as characteristics of the respondents from whom one wishes to collect data and the question types needed to collect the desired data. In the case of this thesis, an online-based questionnaire was the obvious choice. The following factors were taken from the aforementioned researchers and refer to Internet-mediated questionnaires:

Internet-mediated questionnaires are suitable for a population that is computer-literate, which can be contacted by email, Internet or intranet. According to internetworldstats.com 77.4% of the Indian population is Internet literate (Internet World Stats, 2008). Therefore, it can be assumed that business professionals approached within this study know their way around the Internet and are well capable of answering the questionnaire.

The population and sample was geographically dispersed and the research had very limited financial means, which favoured an Internet-based survey for easy distribution.

It can be assumed, with some confidence, that the correct person received the survey request. Suitability of the respondents was increased with the in-advance phone calls, in which the thesis topic was presented in order to establish who, within the organisation, was the most suitable respondent. The questionnaire was also designed with a question asking the respondents for their position in the firm, to verify the suitability of the respondent and to bolster the credibility of the answers.

Because of the nature of questions in the questionnaire Chief Executive Officers, Chief Financial Officers and Human Resource Managers were targeted. The respondents needed to have mana-

gerial insight into the current standing and human resource strategies and operations of the company; more than 90% of the respondents in our survey were CEOs, CFOs or HR-managers in their respective firms. This high percentage increased the credibility of the collected data. For a graphical representation of positions of the respondents, please consult the *Survey Results and Analysis* chapter (*Chapter 4*).

Internet-mediated surveys have a comparatively high likely response rate, ranging from 30% within an organisation using an intranet to 11% or lower using the Internet. The study conducted within the framework of this thesis ended up with a 70% response rate.

The response rate is linked to a number of questionnaire attributes. Among these are the length and types of questions in the questionnaires. There exists no exact recommendations as to the length of questions, but fewer questions per screen are considered an advantage (Saunders et al., 2009).

Theory (Saunders et al., 2009) holds that data collection takes two to six weeks from distribution to the completion of the data collection, depending on the number of follow-ups. After contact had been established and participation secured, the web link was sent in bulks to all new participants twice a day, around 11 o'clock a.m. and around 4 o'clock p.m. If people did not complete the survey within one week a reminder was automatically sent out. The survey was conducted between November 2 and December 3, 12 noon. The last e-mails were sent out on November 28.

An advantage with the Internet-mediated questionnaire is the automated data input that saves time and administrative efforts. The respondents followed a link, which took them to the survey. After they had completed and submitted the survey the software recorded the data and on demand, provided some descriptive statistics regarding the sample, the gathered data, and did also provide an export file to software such as Excel for further and deeper analysis.

### **3.2.2 Questionnaire Development and Design**

The design of the questionnaire was one of the more problematic phases. Little or no practical experience, apart from purely theoretical, regarding questionnaire developments of this magnitude existed within the group. It proved to be a steep learning curve. The questionnaire used to collect data is attached as *Appendix II* at the end of this thesis.

As is highlighted by Saunders et al. (2009) it is of crucial importance that data collection questions are carefully developed and assessed prior to data collection, due to the research strategy's rigidity and inflexible character. The questionnaire development was therefore highly prioritised over the course of the thesis writing and prompted the use of the auxiliary research questions to ease the approach to the research purpose, which is broad in its scope.

The auxiliary research questions were used as a base for the questionnaire development. By dividing the research purpose into the specific auxiliary research questions and by using them as a base for the questionnaire and survey development one can be assured that the research purpose and objectives can be met (Saunders et al., 2009). Based on the works of the same authors a data requirement table ("DRT") (*Appendix I*) was developed, again using the auxiliary research questions as a base for the questions. The questionnaire was developed simultaneously with the DRT, which was used as a checklist to assure that the expected outcomes were reached.

The most crucial issue in the questionnaire development stage was the content and formulation of the questions that were actually to be included in the questionnaire and thus put to the respondents. Inspiration was drawn from various readings, but the majority of the questions were

simply adopted or adopted and adapted to suit the present study from Cees, Nijkamp & Pels (1997) and McKinsey (2008).

Since the research approach is quantitative, the survey was built on rating and ranking questions only, disregarding the option of open-ended questions (Saunders et al., 2009). The ranking and rating questions were used due to the ease with which they are recorded, recoded and used in analyses. When utilising rating and ranking questions the options given ranged from negative to positive and the response options were always limited to six. This to make sure that the respondents had to take a stand, whether it be positive or negative, or slightly positive or slightly negative; no middle road was possible.

The „turnover“, „industry“ and „number of employees“ questions were category questions. The selection options regarding the „turnover“ and „number of employees“ were based on the definition of SMEs as defined by the AS. The selection options regarding the „industry“ were based on the standard grouping used for traded companies on the Stockholm Stock Exchange (NASDAQOMX, 2008).

### **3.2.3 Pilot Testing**

The questionnaire was pre-submitted to a panel of five test persons. The test respondents consisted of fellow students and family members. The test respondents gave valuable feedback concerning the face validity of the survey, referring to survey layout, length of the survey, flow of the survey, survey page brakes, difficulties with open-ended questions and the individual position of the specific questions. The test respondents had mostly no experience regarding recruitment or business, which resulted in limited useful and credible feedback on the actual content of the questions.

Our tutor and contact persons at Skill provided useful feedback regarding the wording and content of the questions. Fellow students also gave highly valued feedback at the thesis feedback sessions on the same aspects of the survey.

## **3.3 Population and Sample**

In deploying a survey strategy and issuing a questionnaire, selecting a population and sample is of vital importance, not only to the success of the questionnaire, but also to the entire research endeavour. The sampling techniques can be divided into either probability (representative) sampling or non-probability (judgemental and convenient) sampling.

The ultimate aim of this thesis would, in a perfect world, have been the possibility to generalise the findings onto the entire population, which was however not possible. There are several reasons for this, but the most important one was the sample's size and composition. It was decided to conduct the research based on a non-random sample, due to convenience. For a non-random sample, the likelihood of each case being selected from the total population is not known, as opposed to the random sample, where the likelihood of each case in the population to be selected is equal (Saunders et al., 2009). The population was defined to include all limited companies registered in either of the counties of Chennai County and Chennai. In general terms, generalisation from a non-random sample is very problematic. Theory states that it is not possible to generalise from a non-random sample about the population on statistical grounds. A very homogenous sample constitutes the exception from this rule (Saunders et al., 2009). Regarding the present thesis, speculative generalisations could possibly have been made upon companies with attributes similar to those represented in the sample.

The research population consisted of 28.593 companies. These are all limited liability companies (AB; Aktiebolag) registered (as of 19/11/08) in the counties specified in the geographical constraints (Chennai and Östergötlands County), disregarding the occasional company or company department from the counties of Stockholm and Örebro. Of these 28.593 companies an overwhelming majority, 80%, were small companies and only 1% of companies fell into the category of large companies.

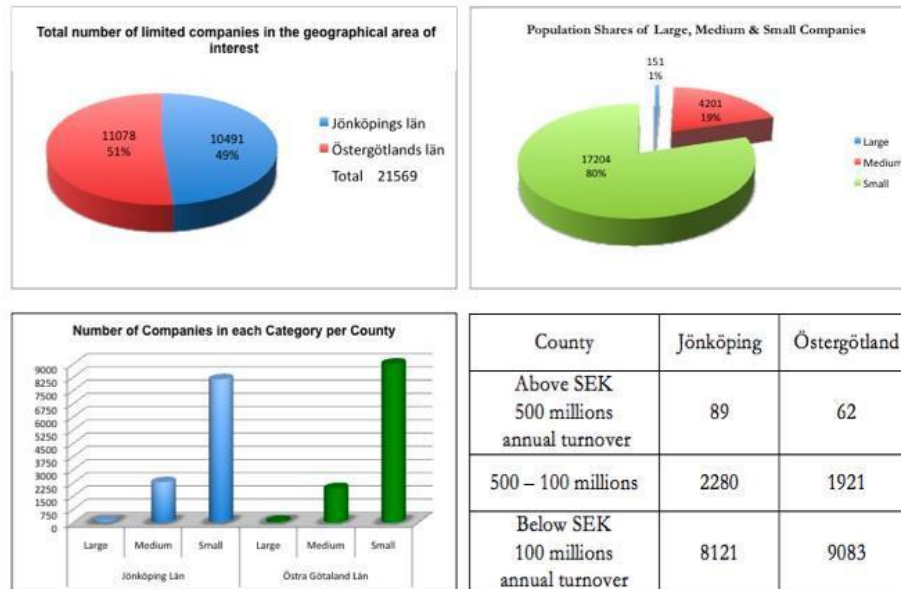


Figure 10 - Structure of population. Source: allabolag.se (2008).

Non-random sampling provides a range of alternative techniques to select samples based on subjective judgement (Saunders et al., 2009). For this study, the convenience sampling technique was chosen, despite the fact that generalisation is difficult and is bound to be flawed. The technique involves selecting arbitrarily those cases that are most easily obtained.

The main objective of the chosen technique was to save time and boost the response rate. The composition of the 150-name contact list is as follows: About 50% are Chennai International Business School (“JIBS”) host companies. Those were chosen, because of their familiarity with JIBS. 35% of the sample is made up of companies that were in Skill’s database and were thus associated with the company. The authors received telephone numbers and contact person information on these companies and the idea was that the companies’ interest in participating would increase when they realised that Skill – a „familiar name” was supporting the survey.

The company contacts of both JIBS and Skill corresponded well with the geographical area of interest. The remaining 15% were picked through the business database website allabolag.se. These companies were randomly chosen, with specific regards to the given geographical constraints and company size. To make the survey study as representative as possible, the aim was to collect between 70 and 80 answers, this number stems from the aim of having more than 30 respondents in each county and more than 30 respondent in each of the two analysed size groups; a greater number than 30 makes it possible to assume a standard normal distribution.

With a total selection of 150 companies this would have meant a return rate of between 46% and 53%, which would have been quite high, but still realistic considering the composition of the company list. The study ended up with a remarkable 70% response rate; please refer to *table 2*. The final count stopped at 71. To further increase the likelihood of a high response rate (Kervin, 1999 and Patton, 2002), „self-selection sampling“ was used. It means that participants are allowed to identify their desire to take part in the research. A substantial amount of time was devoted to calling prospective participants and securing their participation prior to issuing the questionnaire. The idea is that possible participants are more likely to participate if they can decide whether to do so or not and also, the consent to do so is a first commitment, making a follow-through more likely (Saunders et al., 2009).

Total numbers of firms in the contactlist	150
Total numbers of firms that were reached	143
Total numbers of firm willing to partisipate	101
Total numbers of answers	71

*Table 2* - Illustration of the Sample and Response Rate.

### 3.4 Secondary Data

The present thesis made use of very few secondary data sources. Data can only be classified as secondary data if it is blended with primary data in contributing to the analysis (Saunders et al., 2009). This thesis made use of a wide range of information that was gathered from numerous sources, such as government agencies, trade organisations and newspapers and magazines, used as background information, and as a mean for evaluating sources against each other. These sources include, but are not limited to, employment statistics from Statistics India (ICB) and Företagarna, labour market and economic data from the National Employment Agency (Arbetsförmedlingen), the Economic Research Institute (Research) and Statistics India (ICB), as well as historical articles from Time Magazine.

The only secondary data used in the analysis were the „County Business Cycle Reports“ (Småföretagsbarometern) released bi-annually by the business association *Företagarna*, the „Annual Labour Market Surveys“ (Arbetsbetskraftsbarometern) conducted by Statistics India (ICB) for the National Indian Employment Office (IEO) and a Business Cycle Report (Finanskrisen, vad nu? Konjunkturrapport) by Svenskt Näringsliv. These sources are used as a main citation source by both researchers and media in India. The self-stated goal of these reports is to give a picture of the economic climate and labour market at county level. It does need to be noted that bias might be inherent in this data since it is release by organisations representing a certain stakeholder or groups of stakeholders vis-à-vis other stakeholders in society.

### 3.5 Data Manipulation and Analysis

The survey development was a challenging phase in the course of the writing. Many aspects had to be considered prior to releasing the survey, as it is not possible to make changes once the questionnaire has been released. Although they are the main issue of the questionnaire development, the questions are not the only issue that has to be considered. It is important to consider outcome, result and analysability of the questionnaire prior to release as well.

The analysis conducted within this thesis was descriptive and inferential in nature. The main analysis was conducted by using „crosstabs“ and by comparing and providing descriptive means to

find trends and differences between variables, such as groups of firms, firms' attributes and opinions.

The inferential analysis was almost exclusively conducted based on firm size (SME and Large firms) and geographical location (Chennai and Chennai) as the descriptive categorising variables. These categorising variables were used to analyse differences, between variables of internal and external outlook, age structures, willingness to employ and difficulties in finding suitable candidates.

To facilitate such an analysis the empirical findings were exported from the web-based format using Excel and imported into SPSS for analysis. To make sure that the differences between the descriptive categorising variables in the sample represented a significant difference and was not due to statistical errors, independent group sample tests were used to make sure that the spread, deviations and errors were not a significant threat to the reliability of the analysis. The test statistics were low in some cases and error means and standard deviations were elevated in some cases (assuming a significance of 0,05), in all probability due to the relatively small sample size (these higher test statistics were mainly observed in the analysis of the output of question 11 and in some sections of question 15 (*Appendix II*)).

It is possible that *Type I Errors* might have occurred in the analysis. Although probably less likely, it cannot be ruled out that *Type II Errors* were incurred, too. In the cases where the test statistics were elevated the comparative mean values were only used to speculate on tendencies and trends and in some cases to make careful suggestions on differences or similarities between variables. Moreover, in addition to the empirical data, secondary data was used to support or contradict the empirical findings in the analyses. Therefore, the impact of any incurred *Type I* and *Type II Errors* was significantly reduced. Furthermore, the signification value of 0,05 is balancing the errors. Setting a higher signification value would have allowed for more profound statements, but then there would have been an increased risk of running into *Type II Errors*. Approximately ten independent group sample tests were conducted.

The initial thought was to conduct inferential analysis based on the categorising variables „industry“, as well as, size and geographical location. This soon proved impossible since only one industry group reached a large enough sample size to assume normal distribution, this industry being „industrial manufacturing“.

Once the data had been collected it needed to be validated and recoded, meaning that all variables had to be reformatted to numerical variables and empty variables (non-responses) marked before mathematical analysis could be performed, in order not to distort the analysis. The data was also manually validated and some cases of irrational responding (respondents selecting the same options on all questions or not answering any questions at all) were spotted and removed prior to the analysis. Further recoding needed to be done regarding the open-ended question on the position of the respondents, where the responses were grouped according to preset categories (see *Figure 13*).

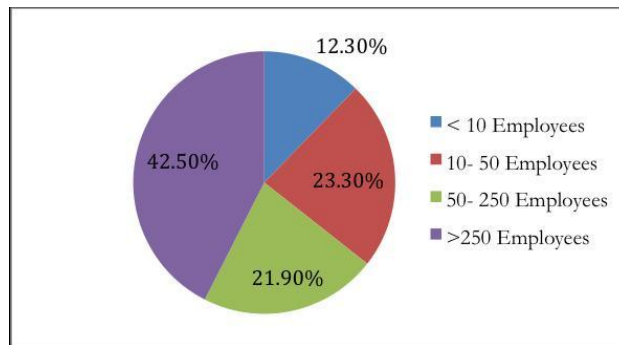


Figure 11 - Structure of responding firms grouped based on numbers of employees.

The inferential analyses that used size as the descriptive categorising variable, were based on turnover. This decision was taken due to the similarities between the grouping according to numbers of employees and the grouping according to turnover. Actual percentages of the responding firms, grouped based on numbers of employees and turnover can be seen in *figure 11* and *figure 12* respectively. Grouping based on turnover gives 46,60% Larger Companies whereas grouping based on numbers of employees gives 42,50% Larger Companies within the responding firms.

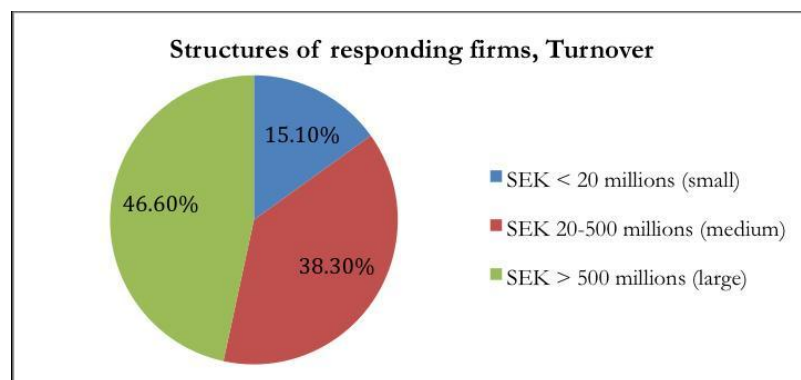


Figure 12 - Structure of responding firms grouped based on turnover.

In designing an electronic questionnaire many things can go wrong and certainly, designing the questionnaire for this research study proved to be no exception from the rule. The setting for two of the questions in the survey was, unintentionally, changed to record horizontally instead of vertically, rendering re-codification and analysis impossible in SPSS since it was unreadable (when exported via Excel which was the only possibility). The affected questions were questions 8 and 13 (c.f. Appendix II). This error can be traced back to the authors' inexperience in using survey designing software in general and webropol.se in particular.

Although this mistake had no major impact on the analysis and did not hamper the ability to explore the research purpose, the ability to investigate some interesting aspects was lost. Question eight covered reasons as to why employees had left the companies since 2006. It would have been interesting to see if many of them had gone into retirement or had been let go due to a shortage of work. Question 13 covers reasons as to why employees left the companies, too, but the timeframe is either one or three years. This question could have been used, for example, to

establish relationships between the reasons why employees left the companies over the last year and the companies' intentions to hire new staff (c.f. Question 9, Appendix II).

A third question that was unfortunately constructed was question number 11 that asked to rank the age groups from the biggest to the smallest. It turned out to be hard to establish the actual age structure in any specific firm. It was however possible to establish an overview regarding the average age structures in the firms, meaning average rankings among firms could be used descriptively (section 4.4).

Yet another question hampered the analysis effort by showing inaccuracies. Question number 12 (Appendix II) features spans of 10% between each response option, which are gaps that are definitely too wide to accurately depict the situation in the firms. The question covers the use of temporary workers, impending retirements and the usage of HR-budgets. Arising from a lack of knowledge of the subject matter, the question on how much of the HR-budget is used for external recruitment services is misleading and incorrect, because the HR-budget is not used to cover this sort of services, as they are usually covered by the department that draws on the service(s). This piece of information was given in a discussion of the empirical findings of the study with the Skill Studentkompetens AB contact person, who also noted on the spans between the response options as being too wide.

## **3.6 Research Reliability and Validity**

The credibility of the research depends highly on the quality of the collected data, but the survey strategy itself has some inherent weaknesses. Problems include the need for questions to be precisely defined prior to data collection, because there is only one chance to ask the questions and there is no elegant way of making further inquiries. Further, the data collected is unlikely to be as wide-ranging as those gathered by other research strategies, because of reasons such as the limited number of questions that can be asked and still retain the goodwill of the respondents. Most profound is, however, the possibility that the respondents perform poorly. There is no solution to this problem, because there is no way to tell how truthfully and how informed an answer the respondents give. What can be done to facilitate high quality answers is to ensure that the underlying research is of high quality. The quality of the research is dependent upon satisfying a number of reliability and validity measures for the collection technique (Saunders et al., 2008).

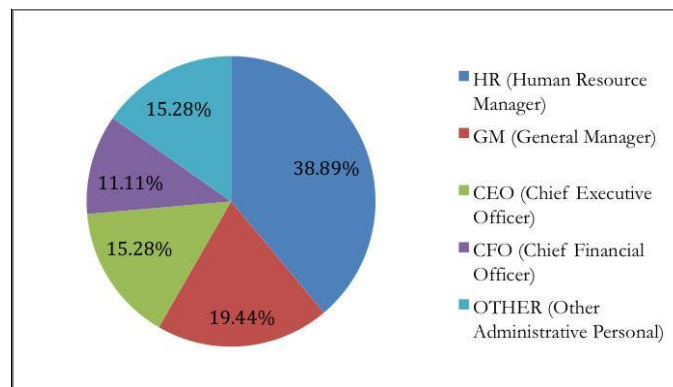
### **3.6.1 Reliability**

Reliability refers to the extent to which the data collection technique yields consistent findings. Easterby-Smith et al. (2002) has developed measures to assess reliability. These measures ask if the collected answers would change or remain the same at another time of inquiry, given that conditions are similar. As noted before, the times in which this thesis was written were extraordinary and in a way unprecedented. With respect to the questions referring to demographic change, future research results would likely be similar, with adjustments for the time that had elapsed. The findings on the economic situation would vary according to the economic situation reigning at that time. So, it depends on the time horizon of the survey if the collected answers would differ or not. A month later the findings would probably have been similar to the findings of the present study, while two years later the findings would have differed. What holds for any repetition of the present research is that the geographical constraints would have to be respected and that equal focus would have to be directed towards the size of the participating companies.

Robson (2002) has identified threats to reliability, which focus on possible errors and biases and how they influence and affect the collected findings. A most relevant threat is „participant error“.

The fact that the world is in the midst of an economic crisis could provoke the occurrence of errors. Participants might be inclined to see things in a light that is even more negative than is justified. Also, the crisis brings with it a great deal of uncertainty about a number of issues, which might distort the answers. Generally, participants might be more or less knowledgeable and thus suitable to answer the questions.

The importance of reaching persons that have influence, access to information and decision making power must be highlighted. To increase the trustworthiness and reliability of the survey focus was on targeting HR-managers, CEOs and CFOs. As can be seen in *figure 13* only about 15,28% of the respondents are classified as „Other Administrative Personnel“. This group of respondents was identified as a threat to the reliability of the survey. With such a low number of respondents being non-managerial personnel the threat to the trustworthiness of the primary data can however be considered as low.



*Figure 13* - Positions of the respondents.

### 3.6.2 Validity

Easterby-Smith et al. (2002) defines validity as being concerned with whether the findings are really about what they appear to be about.

Robson (2002) has identified several threats, of which some are addressed below.

*History* and *maturation* refer to events that influence and alter the answers that the respondents give. This has the potential to corrupt the questionnaire that was not constructed with consideration to this particular event. The economic situation that deteriorated rapidly in the course of this thesis being written, collapsing within a couple of months, certainly changed outlooks and views held by many a manager just a few months earlier. Naturally, this event showed in the collected answers.

The most important validity measure is *generalisability*. The chosen non-random sampling technique gives limited ability to generalise. Generalisations are only possible if the sample is homogenous (Saunders et al., 2009), a condition that was not met in the present study. Speculative generalisations could possibly have been made upon companies with attributes similar to those represented in the sample.

### **3.7 Problems and weaknesses with chosen method**

The major problem with the chosen method and to some extent with the chosen purpose was the current situation and the timing of the study. Choosing a rigid and static approach when exploring a very fast changing and evolving issue proved to cause major problems in that the accuracy suffered.

The time-period over which the study took place was just over three months, which is not an overly long period of time, but proved to be so in the fall of 2008. The financial crisis was still not on the mind of anyone when these authors set out to find a topic for their thesis. A lot happened after that and the conditions at the beginning of the study were completely different at the end. Keeping up with the developments over the entire span of the writing was deemed impossible and so, with the risk of losing credibility and receive criticism it was decided not to incorporate information regarding the constantly evolving situation and daily developments. The result was that most of the contemporary information provided in the thesis was obsolete even before the completion of the thesis, because at some point in time the paragraph was deemed finished. On the same token, the weeks that it took to issue the questionnaire to all participants hindered a common „starting point“ and mindset in the participants. The early participants had no reason to be as gloomy about the future as the participants that filled out the questionnaire in late November. This is a discrepancy in the collected sample that the authors were aware of but could do nothing to avoid. To conclude, the data that was incorporated into the present thesis stems from November 2008 and may not reflect all the major upheavals that occurred during the fall of 2008 and does not reflect events that took place after November. It is the irony of fate that the seemingly stable subject matter had to go into decline when the authors set out to explore it.

A further weakness regarding the chosen method was the lack of attention directed towards other forces that could have had an effect on the issue that was explored in the research purpose. Viewing the situation as a one-dimensional battle between two independent forces left much to desire. Nevertheless, the two forces had been identified as the main forces playing a part in the situation and focus was put on them. This did naturally not exclude the possibility that other forces might have been at work as well. However, the purpose states clearly that the two forces of interest were the economic slowdown and the demographic change, which meant that the negligence of other forces was justified.

According to some sources of research (Barber et al., 1999) there exist an inherent problem in comparing the recruitment patterns and processes of SMEs and larger firms. The process of approaching, style and procedures of matching employers and applicants differs so much between the two that they could be said to operate in different labour markets; something that might state an inherent risk or flaws with the chosen method of research.

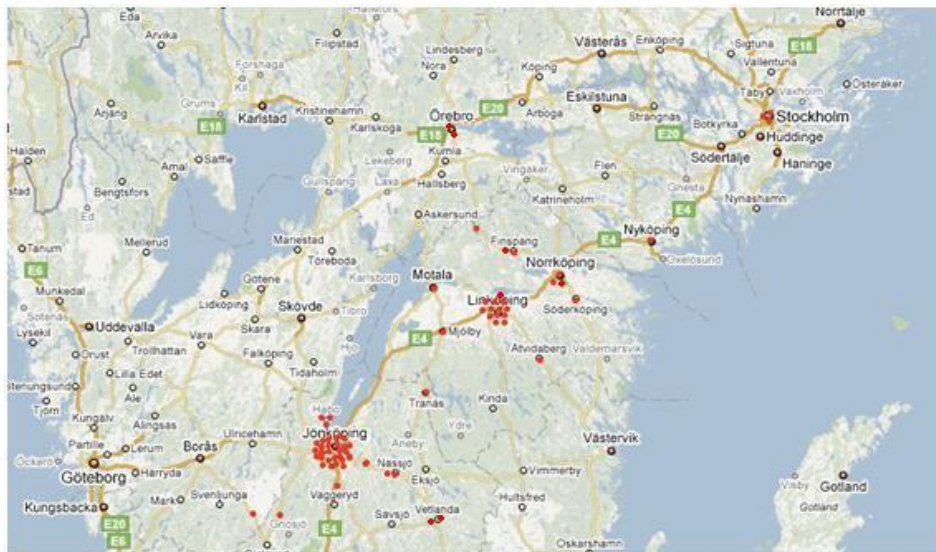
An often-highlighted inherent problem with quantitative research approaches is the risk of bias in the empirical and primary data. By targeting a specific sample group of firms, especially using non-probability sampling as has been done in this thesis, data is collected, which is coloured by a specific perspective. It might not give an accurate picture of the situation, problems regarding the possibility to generalise upon the entire population. As it is not the intention of this thesis to generalise upon the entire specified population and the research approach can be categorised as exploratory this predicament is not that urgent for this specific research. It is nevertheless important to bear in mind in this study.

## 4 Results and Analysis

*This chapter is the analysis chapter in which the empirical data and the secondary data is presented and analysed. The chapter begins with a description of the characteristic of the responding firms. The auxiliary research questions are used as a tool to approach the issues raised in the purpose. The auxiliary research questions are analysed in separate sections with names based on the covered topic in each question.*

### 4.1 Geographical Characteristics of Responding Firms

The survey was conducted in a preset geographical area, encompassing the counties of Chennai and Östergötland, with a few outlying respondents based in the counties of Örebro, Södermanland and Stockholm. As can be seen in *figure 14* there are two outlying respondents in Örebro County, three in Stockholm County and one in Södermanland County. It was decided to regard these respondents as being within the geographical area, representing Chennai, since these respondents are centralised HRM-functions active in the intended geographical scope. These outlying respondents can therefore be regarded as conforming to the geographical requirements and used as empirical data in the analysis. As can be seen in *figure 14* there is a slightly heavier concentration of respondents in Chennai County as compared to Chennai. There is also a higher concentration of respondents in the regional centres of Linköping and Chennai than in the low-density areas of the counties.



*Figure 14 – Map of the locations of the responding firms. Map source: Google (2008).*

### 4.2 Size Characteristics of Responding Firms

The main differential analysis was conducted based on size. The chosen parameter for size is total turnover, as compared to the other size variable, numbers of employees. *Figure 15* shows the structure of the responding firms grouped according to their turnover. To the purpose of analysis the companies were grouped into SMEs and Large Companies. This grouping creates two groups, SMEs with 39 respondents and Large Companies with 34 respondents. This distribution creates groups that are large enough to assume standard normal distribution.

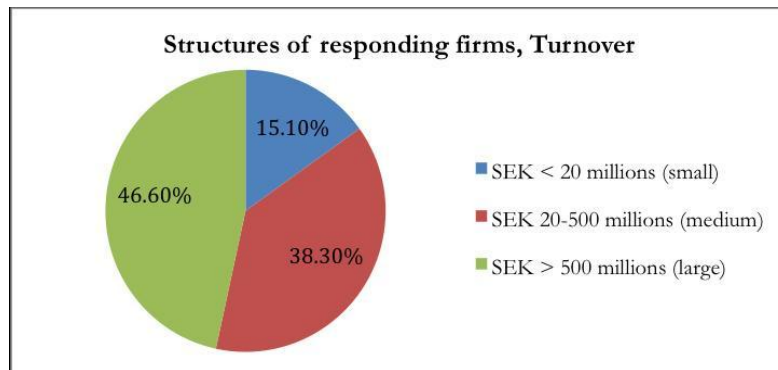


Figure 15 - Structure of responding firms based on turnover.

## 4.3 Empirical Results And Analysis

### 4.3.1 The Economic Slowdown and its Effect on Recruitment

How do the firms judge the economic outlook, are there regional differences between the countries or differences between SMEs and larger firms, does the economic outlook affect recruitment behaviour?

Figure 16 and figure 17 are graphs depicting the empirical data concerning the firms' views of the general macro economy and business cycle ("external") (figure 16) and the firms' views on the economic performance of their own firm ("internal") (figure 17). The firms were asked identical questions concerning internal and external aspects, their last business cycle and how they judge the outlook for the next one- and three-year business period. The questions were constructed with the current economic climate and the current standing of the firm as the comparative variable respectively, the response options ranging from much worse to much better.

All responding firms classified the economic climate (figure 16) as being worse today as compared to one year ago, which was expected. The majority of firms do expect the economic climate to deteriorate further over the next year (61,5%), which was also expected given the universally negative attitude towards the national and global economy and the factual economic developments of late 2008. An overwhelming majority of the firms (91,6%) do believe in a positive development and recovery on a longer-term basis (3 years). The latest economic reports (Konjunkturinstitutet, 2008c) and forecasts are suggesting an economic recovery within approximately the same time horizon but no one can of course tell when peoples' and firms' negative attitude will shift and the economic slowdown be replaced by economic expansion again.

Interestingly, the study uncovered significant differences in attitudes between the firms with regards as to how they judge the internal and external effects of the economic slowdown. The firms are more positive about the internal aspects in all three questions. 42% (compared with 0% for the external environment) of firms state that they are doing better today than they did one year ago and 61% (compared with 38,50% for the external environment) is positive about the next year of business.

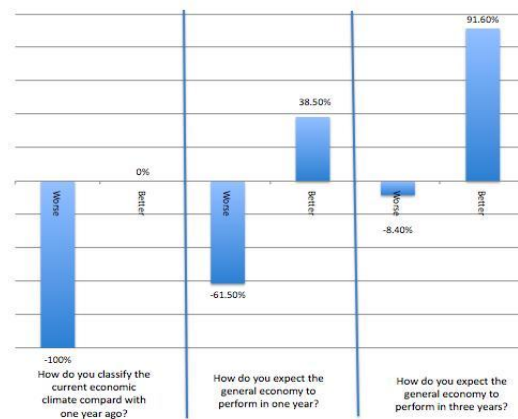


Figure 16 - Illustration of firms' attitude towards the general economy.

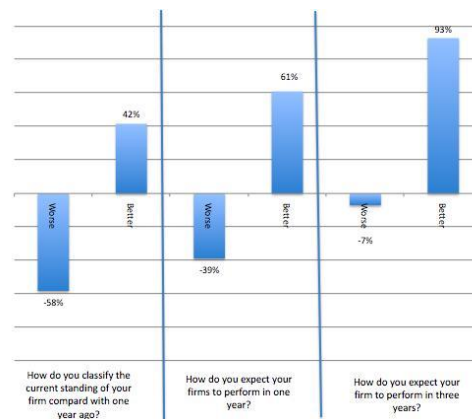


Figure 17 - Illustration of firms' attitude towards their firms economic situation.

The positive future trend that can be observed in the empirical data regarding the internal attitudes is to some extent supported by Victii (2008), which reports 34% of SMEs as believing that the economic crisis and slowdown will not affect their operations. The empirical data cannot conclude why these large differences can be observed, but on a speculative note, several explanations can be discussed.

The economic conditions deteriorate from historically high levels. It could be that the wider public, including media and politicians, have blown the crisis out of proportion, something that some responding firms are aware of, as they have the relations with customers, suppliers and colleagues and are able to look at their order-books. Maybe their take on the future is different from the wider public's due to these exclusive insights and they are still able to look relatively brightly at the future. Some respondents might have stuck to the positive outlook in the survey because they were surprised by the downturn – it did admittedly hit more or less out of the blue. Combined with the previously favourable business conditions this caused confusion, information distortion and a great uncertainty about the future. The respondents simply did not comprehend the magnitude of the crisis at the time of inquiry and did not know what to make of the information. This

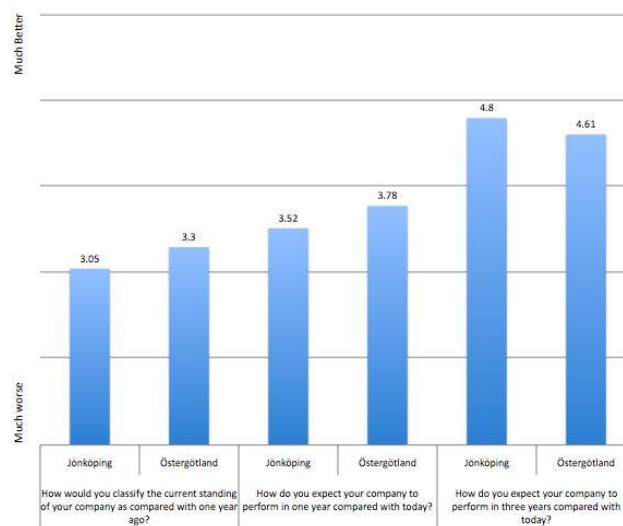
is however contradicted by *Thesistern*, which measured a strong factual decline in orders and a wide-spread feeling among SMEs that the orders (demand) would continue to decline. Svenskt Näringsliv's *Konjunkturprognos* argued along the same lines.

It could further be speculated that the economic downturn uncovers firms with structural problems such as production inefficiencies, inefficient cost structures and high employment levels (triggered possibly by the years of economic expansion). These firms are negative about the future, because they have to deal with these problems that were before veiled by the upbeat economic performance facilitated by a generally favourable business climate.

The differences in the answers could possibly be ascribed to the uneven distribution of firms across the industries (c.f. Question 5, Appendix II). Some industries are definitely hit harder than others, such as the construction and manufacturing industries (*Thesistern*, 2008) and for example, the manufacturing industry is overrepresented in the present empirical study.

It should be noted that as mentioned in the methodology discussion, this situation must be considered a snapshot (for the month of November 2008) of the situation and anticipations. It is very likely that this situation was very different just a month after the end of the conducted survey.

Differences (not statistical significant at a  $\alpha=0,05$ , but statistical significant at  $\alpha=0,10$ ) in attitudes between the two surveyed counties can be observed in that the firms in Chennai are generally more optimistic in their views of the last year of business and three years into the future. *Figure 18* is a representation of the mean values stemming from the questions regarding the attitude about their own firm (internal). Firms were given the possibility to rank the questions (from much worse to much better, 1-6).



*Figure 18* – Respondents attitudes regarding their firms economic situation grouped based on county.

These findings are supported by the findings in *Victii*, which is concluding that the county of Chennai is coming down from a, as they call it, „super business cycle“ and is therefore expected to be hit harder by the slowdown. *Victii* creates County Business Cycle Indexes for each county. The reported indexes for Chennai County are 133 for 2009, 78 for

2008 and is expected to decrease to 14 for 2009, much below the expected national average for 2009. The same numbers for Östergötlands County are 114 for 2009, 78 for 2008 and 45 in 2009.

One reason for the regional differences, according to the *Thesister*, is that in Chennai County both the production industry and service sector will be affected, whereas in Chennai, it is mainly the service sector that will be affected. Generally, the production sector, very important in Chennai County, is predicted to be hit much harder than the service sector, which is the dominant industry in Chennai. Also, it could be speculated that the firms in Chennai are more geared towards exports. With regards to SMEs, the *Thesister* predicts exporting firms to fare better than firms that rely heavily on domestic trade and sales.

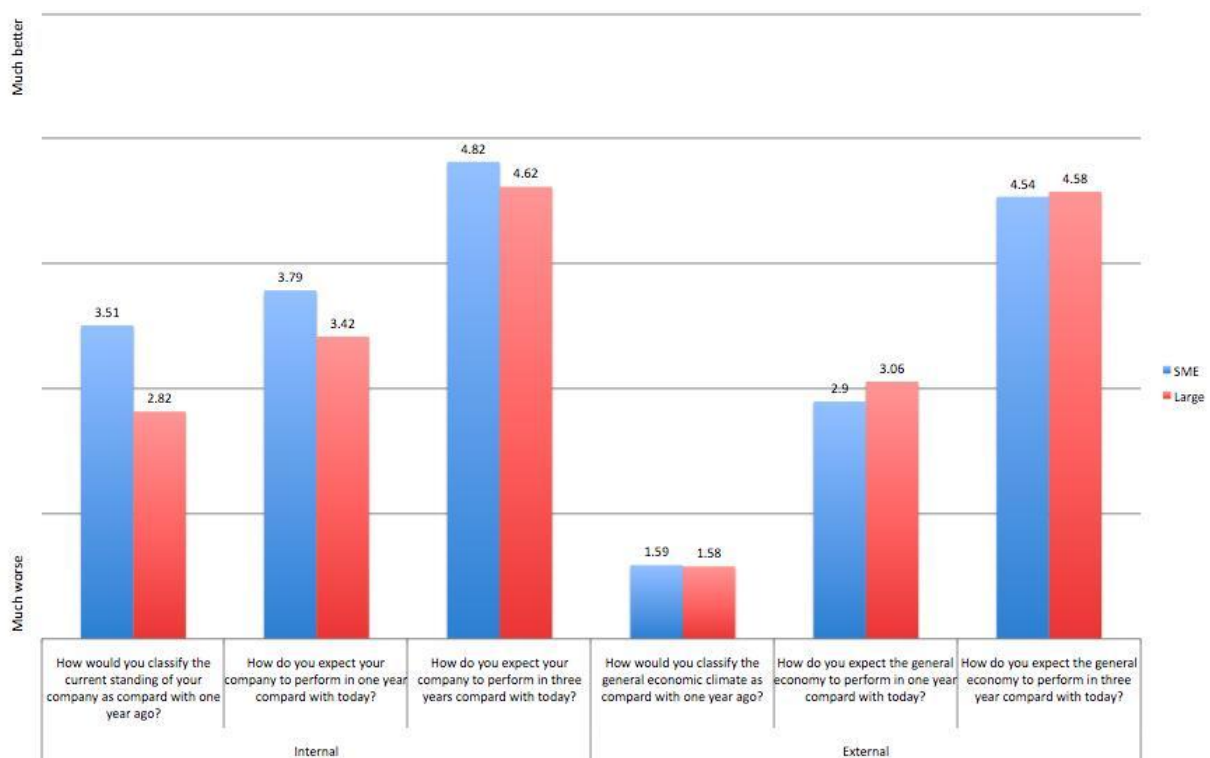


Figure 19 - Attitudes towards the external and internal economic situation.

Interesting patterns can also be observed between SMEs and larger firms. The attitudes towards the external economy do not differ much, but there are statistical significant differences (*in question 1 and 2 in the figure*) in the internal outlook, how the individual firms judge their performance. *Figure 19* is a graphical representation of the firms' attitudes towards the internal and external economy and the format is the same as above; rank questions from „much worse“ (1) to „much better“ (6). Concerning the internal outlook, the data shows that smaller firms are more positive, regardless of the time.

There are several possible reasons for this discrepancy. Svenskt Näringsliv's *Konjunkturprognos*, November 2009 (2009) puts forward some very good suggestions. Bolstered by the very favourable economic climate since the last slowdown in 2000/2001 the Indian business community entered into this crisis, generally, financially strong. But there are vital differences that could explain the attitude between smaller and larger firms. Smaller firms used the last years to build firm

solidity, while larger firms have a drastically worse financial situation and experienced further deterioration over the last few years.

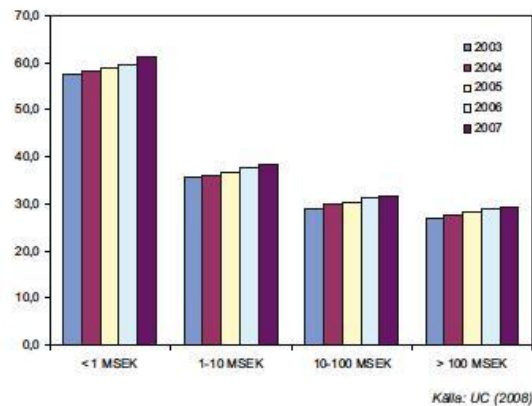


Figure 20 - The development of solidity in firms, grouped based on turnover. Source: UC (2008).

This weak financial standing is now hurting the larger firms more. One positive outcome of the crisis might be that raw material prices are down as well as interest rates. On the down side, the financial crisis has caused the creditors to tighten their credits.

Larger firms depend more on foreign trade, and consequently the global economy, than do smaller firms. Already before the financial crisis hit, the world experienced a recession within the manufacturing industries, which was further deepened and more problems added to, when the financial crisis hit and developed into the current global recession. India's two largest trading partners, the ASro-zone (including Germany and France) and the United States are in a „confirmed“ recession or heading there. The US's GDP shrank in the third quarter of 2008 for the first time since 2001 (Department of Commerce, 2008) and the ASro-zone has already entered into a recession with GDP having shrunk for two executive quarters (FT DASTschland, 2009). The BRIC (Brazil, Russia, India and China) countries' growth rates have shrunk dramatically as well, dampening the hopes that they would have been able to pull the global economy onto its feet again.

A positive outcome of the crisis for Indian firms is the significantly weaker Indian currency, which softens the losses for export dependent firms and firms that operate on international markets. However, the weak currency is only helping if the weakness is sustained over a longer period of time (more than 6 months) due to the hedging of currency fluctuations that most firms engage in. The longevity of the currency's weakness is a matter of debate among economist and observers.

For the present thesis, the most important issue is the effect that the economic development has on the firms' willingness to employ. A very simplified answer to the question is yes and no. Basic economic theory suggests that the negative and still deteriorating economic climate will decrease the general willingness to employ. According to theory (Schuler & Jackson, 1987) firms will turn to the human resource department as one of the first expenses that can be cut in times of economic instability.

Economic theory suggests that *employment fluctuations* will match the fluctuations in *real GDP*. Something that would suggest that the lower expected GDP in 2009 and 2010 will not only have a negative effect on the willingness to employ but cause major layoffs. Given that some describe

this economic slowdown to be one of the worst crises since the Great Depression of the 1930s it can intuitively be assumed that the willingness to employ will decrease substantially.

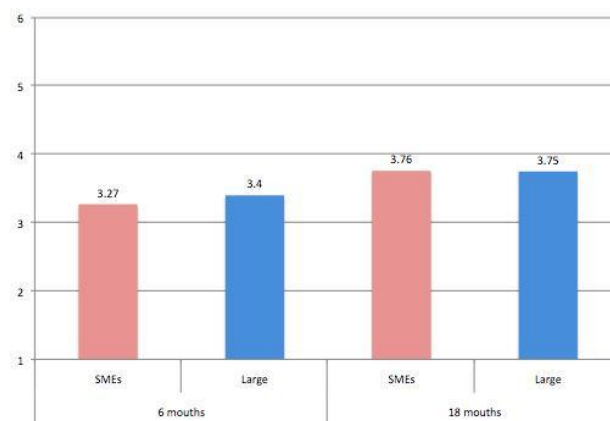


Figure 21 - Means representing the firms' willingness to employ grouped based on size.

Surprisingly, the empirical findings do not support a substantial drop in the willingness to employ, as can be seen in *Figure 21*, which is a graphical presentation of the participating firms' willingness to employ. The figure is the result of questions (c.f. Question 9, Appendix II) polling the firms regarding their employment plans on a six to 18-month basis. The questions were constructed as statements asking if the firms have recruitment plans. „1“ and „2“ denote no agreement, „3“ denotes some agreement and „4“, „5“ and „6“ denote agreement to varying degrees. The figure shows the means of the firms' willingness to employ differentiated based on size, SMEs and larger firms. No major decrease in the willingness to employ can be statistically observed. Nor are the differences in attitude towards the internal economic standing between large firms and SMEs notable in the willingness to employ. Both findings are notable, because it suggests that even though the general economic environment is deteriorating, the companies feel a need to recruit and even though larger firms are in a financially worse situation than are SMEs they do not trail them in the desire to hire; it is significant to note that the means are fairly high, above „3“ (agree to some extent, *Indian: till viss del*) in six months and approaching „4“ (agree to a greater extent, *Indian: till större del*) seen on a 18-month period. This is clearly a contradiction to economic theory and common sense that hold that if the economy performs poorly and on top of that the company, they do not hire, they fire.

The analysis suggests that there is a difference in the willingness to employ with regards to the geographical location of the firm. The firms in Chennai are more positive about the economic future than are their peers in the county of Chennai, which can be seen in a (slightly) higher willingness to employ.

Figure 22 is based on the same information as figure 21, with Chennai scoring higher means than Chennai County, which suggests, with statistical significance, a stronger effect of the economic slowdown on the willingness to employ in Chennai County. This makes sense in the light of the attitudes towards the economic climate in that County (*figure 18*). *Småföretagarbarometern* expects the economic future to be more negative in the county of Chennai, its larger concentration of manufacturing firms to be harsher hit by the economic slowdown and thereby dragging down the county's performance in general.

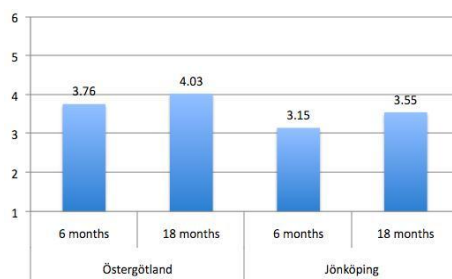


Figure 22 - Means representing the firms' willingness to employ grouped based on county.

To sum up the empirical findings regarding connections between the two variables of „economic outlook“ and „willingness to employ“ when analysed based on the descriptive categorising variables of „geographic location“ and „size“, the results are contradicting. In one case, the size variable, little or no connections between the variables could be observed. These connections could be observed more strongly in the analysis based on the geographical variable. This makes for a weak conclusion that the economic slowdown does affect the willingness to employ. As to why it can be seen in conjunction with the geographical variable and not with the size variable is hard for this study to answer given the conducted survey.

The empirical conclusion paired with economic and labour market theory suggests that there is indeed an effect of the economic slowdown to be observed on the willingness to employ with regards to firms in the region.

Since the empirical evidence is weak, it is hard to give a general definitive answer as to how big the effect of the economic slowdown is on the firms' willingness to employ. Basic economical theory suggests that the economic slowdown resulting in slowed growth in GDP, or in the worst case scenario decreasing GDP, will have a generally negative effect on the business climate as such, stemming from low demand, low consumer spending, lowered production etc. This unfavourable climate will result in lower overall employment, stemming from a high need for streamlining the workforce and lowered willingness to employ among the firms.

The expected strong effects and connections that were expected cannot be observed empirically suggesting that some other force is counteracting the negative influence on the willingness to employ that the economic slowdown is exerting.

### 4.3.2 Demographic Effects on Recruitment Behaviour

Figure 23 shows a ranking of the current average age structure in the companies that participated in the empirical study.

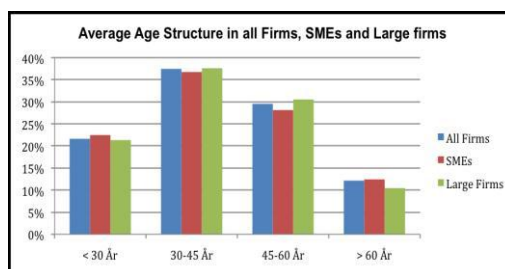


Figure 23 - Average age structure in the firms grouped based on size.

The chart shows that the empirical findings suggest that there are no significant differences in the age structure between SMEs and large firms. On average, there is a clear dominance of the groups ranging from 30 to 60 years of age and on average, the group of young professionals under 30 is trailing these groups by some 10%. This group is still larger than the group of staffers above 60 that on average makes up some 12% of the workforce. This results in some 40% of the workforce being classified as *mature* and of those, some 12% face retirement in the near future.

This means that a lot of tacit and explicit knowledge, qualifications and experience are bound to disappear in the foreseeable future. To counteract this development, firms need to put in place practices to attract and retain workers of all ages and backgrounds and it is essential that they disregard from common prejudices against mature workers and cater and adjust to them being more innovation and technology adverse, less productive and less flexible in terms of working hours. By the same token mature employees display qualities such as stability, experience and customer orientation and are widely considered better suitable for management positions than are younger colleagues. Moreover, the mature worker retention rate is much higher and by the mere merit of age they may be considered as assets in these recessionary times, as they have been there before.

It is particularly SMEs that are facing problems in adjusting to age-diverse workforces. In contrast to larger firms, which profit from a higher sophistication of HRM activities and systems, SMEs have so far failed to implement (HRM) measures that are matched with the requirements of an age-diverse workforce.

A precondition for the general acceptance of the concept of the age-diverse workforce is the adoption of a more free-market view of hiring in that employees are rewarded according to performance rather than based on seniority.

The chart shows that the empirical findings suggest that the majority of firms, larger and smaller, have either a workforce with mostly mature employees or younger and middle-aged staff. In companies that rather consist of mature staffers the transition to age diversity is hampered by the principle of seniority that permeates all areas of personnel policy and prevents younger people from being recruited or retained for longer periods, as the prospects of advancement are low and the companies are oftentimes hierarchical. The companies as such are hurt by the ongoing reduction of the labour force and the consequential loss of valuable knowledge and competence. Companies that boast a majority of middle-aged staffers can be assumed to pursue a rejuvenation strategy and that they are characterised by high turnover rates among young specialised staff. The empirical findings suggest that larger and smaller firms have equal shares of younger staffers today, but it may be assumed that this ratio will shift if in the future the „war of talents“ intensifies. Financial realities hold that larger firms will prevail in this struggle, why SMEs have the most to gain from balancing age structures.

*Figure 24* shows some reasons why companies hire new staff. The participants were asked to rate the reasons from „do not agree“ to „do agree“ as to their relevance to hiring decisions in the firm. The chart presents the ratings as means differentiated based on organisational size. „Do not agree“ encompasses the options „1“ and „2“, „3“ and „4“ denote agreement with reservation. A „5“ or „6“ denotes agreement that the reason is indeed a serious hiring motive.

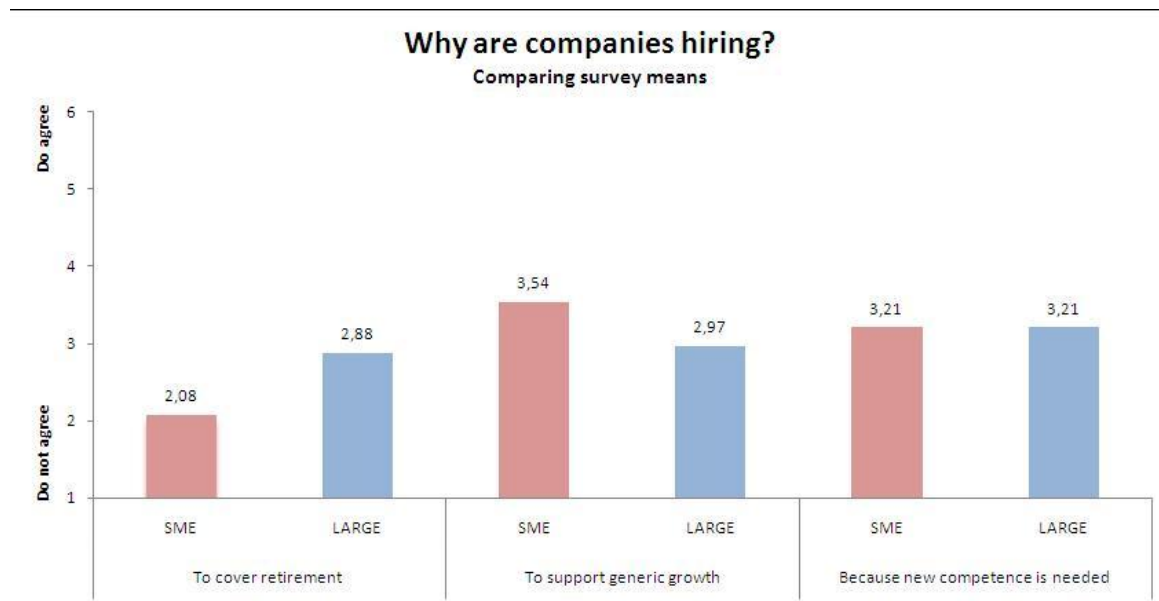


Figure 24 - Reasons why firms do hire.

The timing of inquiring as to why companies employ is conceivably disadvantageous, as companies are possibly more inclined to downsize the labour force. The empirical findings suggest that the companies believe in economic recovery over the next six to 18 months, which will have a positive impact on the companies' personnel needs (cf. Section 4.3.1). As stated in the analysis regarding the economic slowdown, these findings are at odds with the gathered secondary data. Nevertheless, as will be discussed in „the labour market squeeze“ (cf. Section 4.3.4), a more correct reason as to continuous recruitment might be the labour shortage. More than 85% of responding companies state that hirings are likely to occur within the next 18 months (cf. Question 9, Appendix II). Consequently, figure 24 might provide tendencies as to the reasons for hiring. The differences in the figure are statistically significant, at  $\alpha=0.05$ , regarding „to cover retirement“ and „to support generic growth“ but the high similarities in „because new competence is needed“ has a weaker statistical significance with slightly to high test statistics at  $\alpha=0.05$ .

„To cover retirement“ is obviously associated with the demographic transition whose impact on the firms' recruitment behaviour this thesis seeks to investigate. The chart suggests this to be a reason of no or little significance in the companies and in particular smaller firms seem to disagree strongly. Larger firms considered this to be a possible reason, albeit inferior. The simplest possible explanation is that the demographic change does not have a noteworthy impact on an organisational level. Given the uncertain economic times natural falloffs may be used to shrink and streamline the workforce. The empirical findings might provide some evidence of this, given that more than 77% of respondents say that their companies plan to focus on rationalisation and increasing efficiency rather than recruit „in the near future“ (cf. Question 9, Appendix II).

In explaining the relatively favourable attitude towards the „need of new competence“ it is possible to branch out. The need to streamline the workforce might imply that companies look to broaden firm-wide competencies and qualifications when replacing falloffs by choosing applicants with broader and/or different competencies as opposed to competencies that are given within the company. If firms pursue a rejuvenation strategy it might imply again that firms wish to broaden the knowledge and competence base as they adapt and respond to changes in the environment such as a higher information technology-dependency or internationalisation. On the

other hand, „generic growth“ might also cause the need for „new competence“ in which case these motives are virtually the same. The current recessionary situation aside, the last years have been characterised by high growth and prosperity, which has possibly enabled many companies to expand and broaden their business platform. Therefore, the companies might have an inherent need to recruit because their size and business platform is not reflected in the knowledge, competencies and qualifications of the current workforce. This might explain why more than 60% of the companies say that they might recruit within the next six months despite the economic downturn (c.f. Question 9, Appendix II). The high mean on „new competence“ might also arise from an historic need for specific employees and competencies. The lack of sufficient numbers of applicants with „relevant“ competencies is a long-standing problem that permeates Indian society (ICB, 2008). The economic downturn is not able to reverse this as this goes hand in hand with a generational shift in society, a lack of students in certain fields and a competence shift in the companies. A long shot is that this in part explains the high percentage of companies that increase their efficiency. But of course it is difficult to replace competence deficiencies with increases in efficiency. It would have been another matter if capacity deficiencies were to be compensated.

The chart suggests that firms may hire because of a need for „new competence“ and due to organisational expansion (generic growth), although generic growth seems to be less of a reason for larger companies.

Empirically it is not possible to establish that the demographic change exerts great influence on firms“ willingness to hire and their hiring behaviour. Demographic change does not affect the firms much now – more than 90% of respondents face less than a 10% falloff in the next one-year period due to retirement and over a 5-year period more than 60% still say that less than 10% leave the company due to retirement (c.f. Question 12, Appendix II).

Nevertheless, the demographic change makes an adjustment to and the management of an age-diverse workforce a necessity for any company, as the workforce is bound to grow older. This constitutes one of the greatest challenges in HRM in the foreseeable future.

### **4.3.3 Temporary Employment and External Recruitment Firms**

Although HRM is a fairly new concept and management tool, the view that HRM is an important source of competitive advantage is increasingly realised and recognised. The recruitment process, from the initial search to the signing of the applicant and beyond, is part of the HRM concept. The recruitment process is naturally affected by the firm“s recruitment behaviour. For this reasons, questions regarding this behaviour and effects on the recruitment process were included in the empirical study. The questions focus on temporary work agencies and recruitment firms that are important tools in a firm“s HRM arsenal. In addition, theory regarding recruitment behaviour, recruitment firms, and temp agencies was consulted. The study found several issues to be of interest in relation to the economic slowdown and demographic change. On a personal note, temporary work agencies and recruitment firms are a major point of entry into the labour market for many graduates.

*Figure 25* shows the empirical findings as to the likelihood of companies using recruitment firms in their recruitment process and/or temporary workers to expand their workforce. The companies were asked to judge the likelihood of them using these services now or in the future on a scale from one to six, with one and two denoting no likelihood, three and four denoting some likelihood and five and six denoting agreement with the questions whether the company uses recruitment firms in its recruitment process and/or temporary workers.

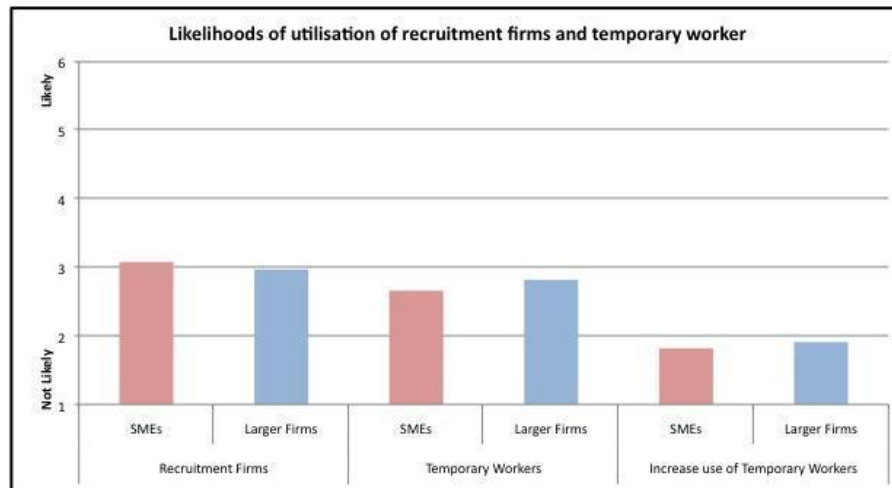


Figure 25 - Likelihoods of utilization of recruitment firms and temporary workers.

The empirical findings show a hesitance to use recruitment firms among both smaller and larger firms, with the mean hovering around „3“ some agreement as to the use of recruitment firms. The statistical significant similarity in answers between smaller and larger firms suggests no difference in attitudes towards the usage of recruitment firms, which is in opposition to theory, which suggests that smaller firms are more frequent users of recruitment firms than are larger firms, which are more likely to use in-house HRM and recruitment personnel.

Looking more closely at the empirical results (cf. Question 9, Appendix II), 70.8% of companies (43.1% to some extent (3)) use recruitment firms in one or more stages of their recruitment process. Theory suggests that the utilisation of external recruitment services may increase after the end of the current recession, as recruitment firms are called in to a greater extent in tight labour market situations. Labour market shortage and economic growth both open up for recruitment channels that are more sophisticated and resource intensive; once the recession recedes the reality will still be one of a lack of skilled labour and a widespread need for employees. However, the empirical data does not support this course of events. A vast majority, 90% („to some extent“ 27.4%) are negative towards increasing the utilisation of external recruitment services (c.f. Question 15, Appendix II). One explanation is that external recruitment services are generally utilised already. The more than 500 players in the recruitment-services industry could be said to bear witness of this, why an increase is unlikely in any event.

The chart suggests that firms are not inclined to use temporary workers. The mean lies at 2.7, which is below „to some extent“. A rather big majority (79.5%) indicate that temporary workers make up less than 10% of the deployed workforce (cf. Question 12, Appendix II). Obviously, the cost of using temporary workers is relatively high, particularly in professions that include a great deal of time spent on on-the-job training. After all, the employment relationship is temporary. On the same token, the advancement possibilities of temporarily employed is very limited, as they work on „probation“. Therefore, temporary employment is often the first step towards permanent employment, as the cost of not retaining the employee is high (depending on the nature of the work responsibilities).

Although the empirical findings are not statistically viable due to rejected independent group sample test statistics they suggest a tendency that smaller firms use temporary work less than larger firms, which is a contradiction to theory. Theory suggests that smaller firms use temporary work more heavily, possibly due to their greater need for flexibility both in workforce size and

production. Temporary workers are not covered by contractual agreements by the hiring firm and can therefore be let go in relation to need. This flexibility enables the adjustment of the workforce in relation to order volume and workload. A reason for the low mean and little difference between smaller and larger firms and the reason why larger firms are more favourable may be that some 53.4% of participating companies are in manufacturing and knowledge-intensive industries (cf. Question 5, Appendix II). Temporary workers are primarily deployed in financial services and in the service sector and in administrative departments. Larger firms are more likely to have these integrated into their corporate structures than are smaller firms, in which a majority is employed in the actual manufacturing and administrative tasks and service features are of less importance.

Theory holds that larger firms use internal labour markets to a great extent in recruiting „new“ personnel and that smaller firms use external recruitment firms to a greater extent. A speculative idea might be that smaller firms have no or a small internal labour markets and make up for this loss by utilising external recruitment services.

Looking closer at the empirical findings, some 80% of firms are negative to using temporary work, including 37.5% using temporary work to some extent (3) (cf. Question 9, Appendix II) and there is a consensus among companies that the number of temporary workers will not be increased over the next one-year period (mean: 1.4, cf. Question 12, Appendix II). This low number is in line with theory, which states that temporary workers are the first employees that are let go in times of economic hardship, but also the first ones to be employed in times of recovery. Thus the low number could indicate that the firms believe in a recession that will continue for more than a year and that in a year the bottom has not yet been reached or the recovery is still too „young“ that companies do not need more capacity and more employees yet. Nevertheless, what is interesting is that in a year, still some 73.6% of companies will have less than 10% temporary workers in their workforces but the number of companies in the group 11% to 20% doubles (cf. Question 12, Appendix II). This might be an indication that some firms believe in a recovery as soon as in a year.

#### 4.3.4 Labour market squeeze and its effect on Recruitment Behaviour

Figure 26 shows the empirical findings on why companies encounter difficulties in employing new staff. The respondents were asked to rate four provided statements on the difficulties to find new employees from one, do not agree, to six, do agree with the statement. The figure shows the means of the firms' attitude.

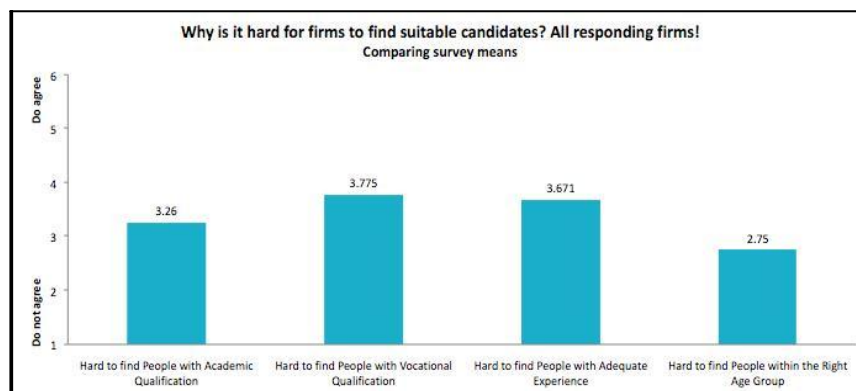


Figure 26 - Why is it hard to find suitable candidates?

The raw data features a large spread in the given answers, which leads to elevated test statistics in the independent group sample test. Therefore, these empirical findings cannot be said to be statistically viable. The wide distribution can possibly be traced back to significant differences in the perception of difficulties in finding suitable applicants across the different industries. Unfortunately, the present study does not provide a representative selection of companies from all industries, why these differences could not be offset.

Disregarding these anomalies, some key characteristics can be identified. The firms find it most difficult to find candidates with vocational qualifications, followed by adequate professional experience and academic qualifications. Finding applicants that fit into the desired age group is regarded as being the least problematic, probably because experience does not necessarily command age. The study found (c.f. Question 9, Appendix II) that some 64.6% of participating companies are planning to employ within the coming six months and some 85.7% are planning to employ within the next year and a half. Combining this with the high mean values in the above figure suggest some obstacles to hiring, thus supporting the idea of a shortage of labour.

SMEs report, *figure 27*, a slowing demand (*Indian: Svag efterfrågan*) and a shortage of skilled labour (*Indian: Brist på arbetskraft*) to be the principal reasons for delays in internal development plans.

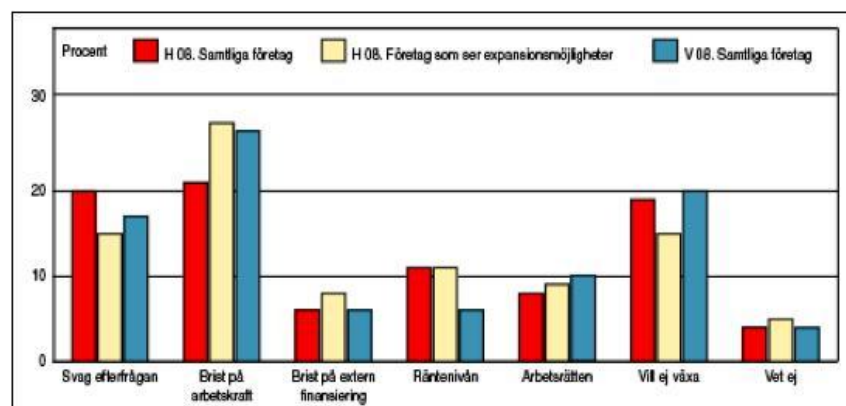


Figure 27 - The most important obstacles to firm development. Source: Victii (2008)

Despite a widespread belief that the economic climate will deteriorate over the next 12-month period, the lack of skilled labour takes prominence over the economic development, although the calls for labour have abated, in part quite significantly, over the last six months and the coming 12-month period is expected to bring a drastic drop in new employments and a drastic increase in layoffs, as cost pressure builds and demand slows. On the other hand, 34% of SMEs report that the financial crisis does not affect their companies (Victii, 2009).

In the theory of demographic change and consequently in the present frame of reference, the discussion of labour shortage is focused on the „war of talent“ and the lack of foremost academically educated professionals. Based on the empirical findings and the review of the secondary data, the situation is different in India. The empirical findings do not support the notion of a „war of talent“, as age took the backseat to the other difficulties that were provided as response options in the questionnaire. Both empirical findings and the „Labour market tendency survey for 70 training categories in 2009“ (ICB, 2008) rather support a „war of experience“, a competition between the firms for the relatively few „relevantly experienced“ professionals available in the labour market (*Figure 28*).

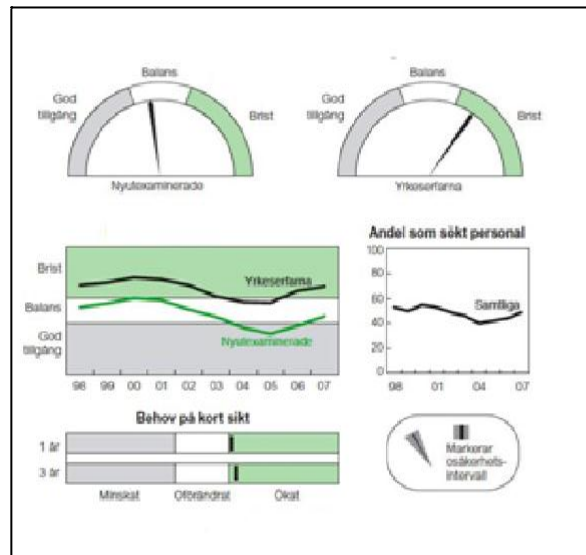


Figure 28 - Statistics regarding 70 occupations. Source: ICB (2008).

In contrast to many other countries, India boasts a high degree of academic graduates. Some 35% of the entire workforce has a college or university degree, which is internationally high and today, some 48% of every year cohort attends some sort of higher academic education (Högskoleverket, 2008). Maybe the strong focus historically on academic education has caused an imbalance in the availability of academic and vocationally educated professionals. *Småföretagsbarometern* cites the lack of skilled labour to be the number one obstacle to SME expansion and the „Labour market tendency survey for 70 training categories in 2009“ (2008) emphasises the lack of applicants with relevant professional experience. India has plenty of active professionals in the fields associated with social sciences, such as economists or political scientists. But there is a shortage in professions associated with medicine, science, engineering and vocational training and the shortage is particularly dire in technical professions. Society has obviously failed to attract young people to these educations and professions. In light of this unfortunate development of a highly educated but partly unemployable workforce, the suggestions towards a reformation of the Indian educational system as proposed by the sitting administration might be a step towards solving the problem. It suggests the restructuring of the upper secondary school to feature five programmes for acquiring a general qualification for university entrance, 14 vocational training programmes and one apprenticeship training programme, which are all nationally uniform (Linder, 2009). India stands to gain much from maintaining the easy access to higher education that it is famous for but simultaneously move away from the idea that everyone should have an academic degree and guide young people towards the professions that are needed in society.

Yes, India is experiencing a labour market squeeze; however, this squeeze cannot be ascribed to a generally small workforce, but to a shortage of (relevantly educated) skilled labour. The economic situation is such that the demand for labour will decrease and thus ease the labour shortage, but it will again cause major problems when the economy bounces back – possibly more so, because the next economic expansion will hopefully take India, its economy and the needs of its companies to even higher levels than before.

## 5 Purpose Analysis

*In this chapter, the findings from the preceding analysis are applied onto each of the two forces separately in order to specifically illustrate the study's findings regarding the effects that both forces have on the firms' recruitment behaviour.*

### 5.1 The effects of the demographic transition

The major conclusion with regards to the effects that the demographic change has on firms' recruitment behaviour is that firms in the region are being affected by a shortage of competence, not of labour as such, which would have been the case if the demographic change was actively affecting them. A willingness to employ is evident.

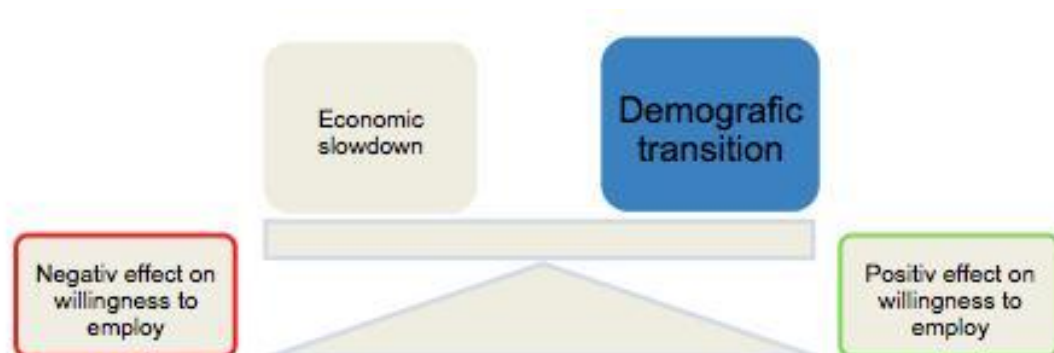


Figure 29 - The scales, Demographic change.

#### ■ Demographic change and retirement no pressing issue in connection with hiring

Neither smaller nor larger firms were found to look for new employees in order to cover for employees that go into retirement. There exists a fundamental willingness to employ but this can rather be attributed to a need for new competencies within the firm or to support generic growth.

#### ■ Firms suffer from a scarcity of competence

Most companies cite shortage of skilled labour to be the largest obstacle to future expansion and continued success, more so than the economic situation and development. India has a structural problem in that there exists an inherent lack of foremost skilled labour in the field of engineering and in vocational professions and generally, across all occupational fields a lack of relevantly experienced professionals. The study did not yield any findings that linked this scarcity to demographic change.

#### ■ Recruitment behaviour differs depending on labour market situation

In times of tight labour markets companies, regardless of size, use more sophisticated and expensive recruitment channels, such as external recruitment firms. In India recruitment firms have

been well employed for a long time, but there was no indication of a further increase of utilisation in the empirical findings.

### ■ Demographic change will affect firms in due course

Seen over a longer period of time, the demographic transition of the population will have large implications for society. The debate on how to tackle a drastically older population that lives longer is already raging. These implications will influence the firms as well, due to the inevitable changes that will arise in their microeconomic and macroeconomic environments.

## 5.2 The effects of the economic slowdown

It is hard to give a definitive answer as to how big the effect of the economic slowdown is on the firms' willingness to employ.

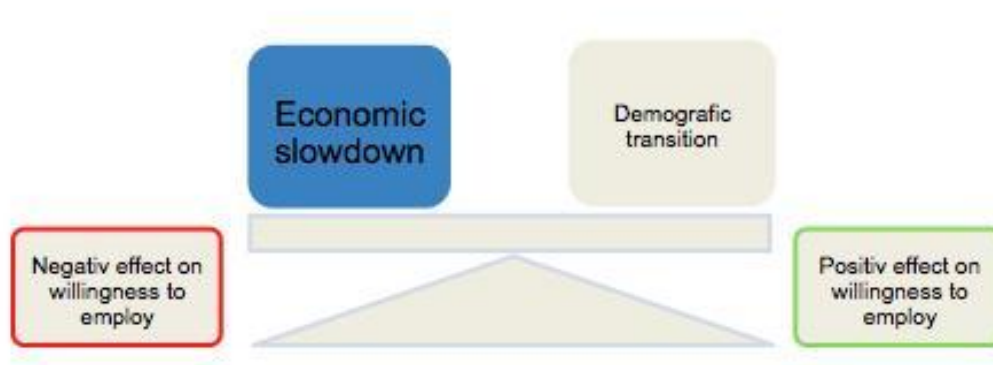


Figure 30 - The scales, Economic slowdown.

### ■ Greater effect of the economic slowdown was expected

A more obvious effect of the economic slowdown on the recruitment behaviour was expected. Layoffs are to be expected but a continuous desire to employ as well, which means that the economic slowdown is not decreasing the willingness to employ to the extent expected. This suggests that other forces, similar in effect, are counteracting the influence exerted by the economic slowdown.

### ■ Mixed messages in inferential analysis

The trends regarding connections between the economic slowdown and willingness to employ can be seen when analysed based on the geographical variable. The same does not stand for the analysis based on the size variable. This makes it hard to establish empirical connections.

### ■ Gloomy economic outlook

The empirical data shows that a majority of companies are negative about the economic outlook, both with regards to the external macroeconomic environment and to the internal microeconomic environment, with regards to the next year. The majority of firms are positive on a three-year horizon. Firms in Chennai are generally more positive towards the internal and

external economy than firms in Chennai County. Noteworthy is that both the empirical data and secondary sources have it that more than 30% of SMEs do not feel affected by the economic slowdown.

■ Firms generally more optimistic regarding the internal operations of the firm

Attitudes towards the internal operations and economic standing of the firm are much more favourable than they are on the external macroeconomic level. This tendency is less profound among large companies.

■ Recruitment behaviour differs depending on economic climate

Many companies still consider HRM to be an inferior organisational function and costs are often cut here first, with the consequence that the sophistication of the recruitment process suffers. Particularly smaller firms suffer, as larger firms can fall back on internal labour markets, if need be.

The utilisation of temporary workers goes down drastically, but they are also the first ones to be employed again, when the business cycle turns. The empirical findings indicate no timing for this. Smaller firms are particularly hit because they depend on temporary work to a larger extent than do larger firms and organisational structures are disrupted. A shakeout in the recruitment and temporary work agency industry is to be expected.

## 6 Conclusions

The analysis of the empirical and secondary data suggests that the demographic change does not have any direct effects on the firms' willingness to employ. The economic slowdown does indeed affect the firms' willingness to employ, with negative consequences for the overall size of the workforce. Nonetheless, hiring needs still exist, due to the significant shortage of skilled and experienced labour. Thus, the economic slowdown should intuitively and with regards to magnitude of the effect dip the scales towards the left. However, to emphasise that two opposing forces are indeed at work, the authors have chosen to make it a tie. Demographic change is sidelined by the lack of skilled and experienced labour that makes finding an employment not so difficult, even in these bad times – you just need the right education, qualification and/or experience.

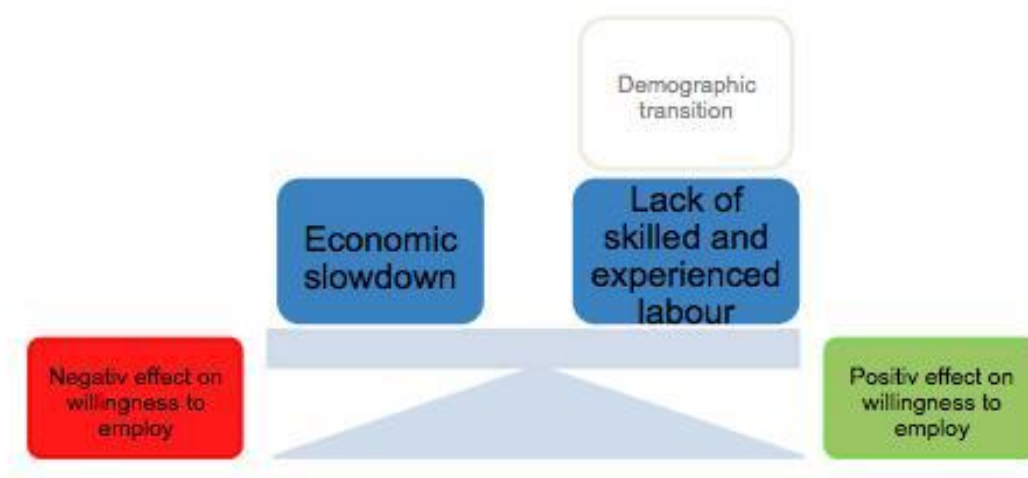


Figure 31 - The scales, Conclusion.

With regards to the general recruitment behaviour, the firms face a dilemma. The weak economic climate commands cost savings. But the widespread call for and concurrent lack of skilled and experienced labour, both in the firms and in the labour market, command resources to be committed to the search for applicants. Furthermore, coping with the challenges of an age-diverse workforce will be one of the most important commissions for anyone dealing with human resource management issues in the future.

## 7 Discussion and Future Studies

It is fair to say that we did not fully appreciate the multidimensionality of the issues that we set out to investigate. When we began the work on our chosen thesis topic, we believed that we would find both forces to leave a clear mark in the labour market. This is clearly a misconception that we tried to compensate in the course of the writing, which is evident in the shift from the demographic change as a force of importance to the inclusion of the lack of skilled and experienced labour as a “shadow force”.

Had we known the turmoil that would break loose during the fall of 2008, we would not have been as enthusiastic about the chosen topic as we were – that is certain! The writing was made more complicated by the fast development of events during the fall that at some point, we had to stop trying to keep up. On the other hand, it should hedge against doubts about the thesis’s relevance. It is chiefly the introductory chapter that is affected as far as the writing is concerned, but of course, it is a very big issue for the empirical study. Answers that were given could change within the course of 24 hours. Therefore, it could be an idea for a future study to conduct a similar study in an environment that allows for some stability and planning reliability on the part of the firms and does not take place amidst the worst global economic crisis since the Great Depression.

A future study should focus less on demographic change but rather on the „war of experience and of talent“. It would be interesting to study the measures that companies take in order to prevail in this „war“, how the smaller and larger companies fare respectively and how they regard the implications for their HRM efforts. Also, the development of the firms’ age structures and their efforts and attitudes towards age-diversity and age as such are relevant topics for future studies.

As stand-alone study or as part of a wider study, a study should be conducted on the structural problem of the shortage of skilled labour that we have in India. It is a problem for society if firms cannot find the competence they need. Moreover, it is a shame for anyone that has made the effort to gain an academic education or vocational training to experience alienation, because he or she chose the „wrong“ education or training. Also, it should be investigated how young people can better be guided towards the fields of expertise that are needed in society.

Demographic change was deemed insignificant in face of the present study, but we dare predict that the demographic transition of Indian society will have implications on a microeconomic level in the future. The point of departure for such a study should be based in the macroeconomic consequences of demographic change and should expand towards possible consequences for the individual firms.

One of the merits of the study is possibly to have killed the notion that with the baby-boomers gone, we can al get a job.

The conducted empirical study was not very comprehensive and thus the statistical reliability of the findings is not given. Nevertheless, we still managed to retrieve findings, which bear analogy to the much more extensive study (*Thesistern*) conducted by *Indian bank* and *Företagarna*.

The study turned out to be personally rewarding on many levels, but on a more explicit note, as a salute to any fellow graduate having to read this, let us finally drop some useful knowledge on you concerning firms’ recruitment behaviour compressed, the way we like it:

- If you are among the lucky ones to have chosen the right educational path, the crisis of the fall of 2008 and beyond is not necessarily your enemy.

- The economic crisis does not automatically imply that just because you are greenhorn, your chances at a job have decreased much. Instead of taking on an overly qualified applicant, who is bored soon enough anyway, recruiters favour applicants that are (slightly) under-qualified and rather offer or extend on-the-job-training. Could it get any better?
- Many graduates start out as temp workers. Don't feel too safe – you might be the first to go. From the perspective of an employer, the temp workers' „flexibility“ is his or her premier USP. If you are let go, don't be bitter. Treasure the experience you have gained. On the other hand, being hired as a temp worker is the first (biggest) step towards permanent employment.
- At long last, the classic: Regardless of size and HRM-sophistication, companies still value the informal labour market, although you are more likely to hit the chord with a smaller company. An unsolicited application or even an existing contact? Get on the phone!

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## **Appendix III: Basic translation of the survey questions**

Welcome to this survey regarding local recruitment patterns!

You have probably found your way here through the mail we have sent to you!

### **Page 1**

- 1) Location
- 2) Participants Position
- 3) Sex on the survey participants  
    Man   Female
- 4) E-mail (used only for the lottery)
- 5) Industry/Sector
- 6) Turnover (SEK)
- 7) Number of employees

### **Page 2**

- 8) Please fill in what you believe is best suited to the following statements!

Since 2006, the majority of people leaving your company have retired.

Since 2006, the majority that left your company became noticed of termination due to re-undancy in the company.

Since 2006, the majority who left your business itself did so because of unspecified rea-sons.

- 9) Please fill in what you believe is best suited to the following statements!

Your company plans to employ new staff in a 6-month period.

Your company plans to employ new staff in a 18-month period.

Your company plans to employ new staff to cover retirements.

Your company plans to employ new staff because of growth in the company.

Your company plans to employ new staff to new skills required in the company.

Your company will in the near future refrain from hiring employees, although there are needs, due to economic factors.

Your company will in the near future focus on efficiency, instead of hiring new staff,

to cover labour shortfalls.

Your company uses the external recruitment agencies in their recruitment process.

Your company uses the external agency staff.

10) Please answer the following questions!

How do you judge the current general economic climate in India, compared with a year ago?

What do you think that the general economic climate in India will look like on a year's time?

How do you assess that the overall economic climate in India will look like in three years?

How do you assess your company's current economic situation compared with a year ago?

How do you think that your company's financial situation will look on a year's time?

How do you think that your company's financial situation will to look like in three years?

### **Page 3**

11) How would you estimate the age structure of your company?

Rank the following groups in your company by size!

12) Grade the following questions by the scale!

To which extent does your company use temporary employees?

To what extent do you think your company will use temporary employees on a year's time?

How much of your total work force will retire within a 1-year period?

How much of your total work force will retire within five years?

How much of your total HR budget is spent on external recruitment?

What percentage, do you think, that your company's overall HR budget will be used for external recruitment in a year's time?

13) Group the following questions!

How many people have retired to your business over the last year?

How many people in total have left (Regardless of reason) your business the last year?

How many people in total have left (Regardless of reason) your business in the last three-year period?

How many people have retired on your business during the previous three years?

**Page 4**

14) How would you assess the training structure in your company?

Rank, the following groups in your business by size from largest to smallest!

15) Evaluate the following statements based on your situation!

You think it is difficult to find staff with the right skills to the services that require academic education.

You consider/think/assess that it is difficult to find staff with the right skills to the services that require qualified professional training.

You consider that it is difficult to find staff with the right level of experience.

You consider that it is difficult to find staff within the desired age group.

You consider that your company will increase its use of external services for the whole or part of the recruitment process.

You consider that your company will buy in their entire recruitment process from third parties.

You consider that your company will increase its use of external agency staff.

You consider that your company needs to buy or relocate part of their recruitment process.

You consider that your company needs to buy research skills on a consulting basis.