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**Conference's Theme:** Small Places Can Change the World: S&T as a catalyst for economic development, Skopje, Macedonia: March 24-27, 2009

### **Company Management in the Time of Economic Downturn: The HRM System of Motivation Maps**

*A mathematician, a scientist and an economist apply for the same job in the time of economic crisis... The HR manager calls in the mathematician and asks "What do two plus two equal?" The mathematician replies "Four." The HR manager asks "Four, exactly?" The mathematician looks at the interviewer incredulously and says "Yes, four, exactly." Then HR manager calls in the scientist and asks the same question "What do two plus two equal?" He says: "On average, four - give or take ten percent, but on average, four." Then the HR manager calls in the economist and poses the same question. The economist gets up, locks the door, closes the shade, sits down next to HR person and says "What do you want it to equal?"*

*What is the conclusion? The result always depends on HR manager's choice...  
(joke)*

#### **1. Background**

In Kazakhstan HR management practices (HRM) were first applied by foreign FMCG and oil companies about 6 years ago, and the local big companies started opening HR Departments based on the soviet-style, so called "otdel kadrov" or Personnel Department about 3 years ago. In the best cases, "HRM and employee relations practices utilized in Kazakhstan have been *a hybrid of old-style Soviet and Western-based approaches* (US and European)"<sup>1</sup>.

Despite the popularity of the term HRM, there is no universally agreed definition of its meaning. Watson (2002:369) suggests that a "rather messy situation currently exists whereby the term HRM is used in a confusing variety of ways". In its broadest sense HRM can be used as a generic term to describe any approach to managing people<sup>2</sup>.

But the Human Resource Management (HRM) is a fairly new concept even in the United States, introduced by the Harvard Business School in the early 1980s. That is why the matter of investigating and researching the best HRM models that could be applied in a practice during a recession period would be one of the *main purposes of HR practitioners, researchers* and the top-managers of companies.

#### **2. Application of HRM practices in Kazakhstan**

The first signs of an economic crisis appeared in Kazakhstan in 2007 as a consequence of the world financial crisis. As a result, from the very beginning of 2008 year many Kazakhstani companies

<sup>1</sup> European Journal of International Management, Issue: Volume 1, Number 4/2007 "Hybrid human resource management in post-Soviet Kazakhstan". Authors: Dana B. Minbaeva, Kate Hutchings, S. Bruce Thomson

<sup>2</sup> Julie Beardwell, Tim Claydon "Human Resource Management. A Contemporary Approach", 5<sup>th</sup> Edition FT 2007 Chapter 1 Definitions of HRM

became dependent on external source of funding, in the absence of which they started reducing their staff and reorganize their structures with the purpose of business management's optimization. In these processes the owners of many companies have also been searching for advices from Human Resources (HR) Departments or independent HR Consultants for the key question: how to better manage the companies' personnel using the most efficient HR management models in a time of economic recession?

The **questions** that arise here: which HRM models are used in the local Labor market, an application of HRM models with consideration of the national, sectoral and organizational factors and what is the best model that could be used in a time of recession?

Because of lack of HR professionals and Consultants with the knowledge of HRM experience and the best world managerial practices, there has been a certain trend in Kazakhstani Labor market, when the owners of companies searched for a ready-made recipe and used the popular US management model of balanced scorecard (BSC)<sup>3</sup>.

Local companies have been inviting some international consultants or consulting companies from Russia and Ukraine, who were trying to apply BSC model to the local companies. But somehow this model doesn't work due to the **number of reasons**:

- 1) These consulting companies apply this model without any specific adaptation under the local conditions and coaching during the implementation phase. As a rule, companies don't benefit from it.
- 2) The other reason is that many local companies gave up a practice of long-term or even mid-term planning and therefore, didn't set up the clear strategic goals, but BSC may work only in a certain environment with a clearly-based and justified strategy. *In the absence of a clear set up strategy and the time of change management*, this HRM model doesn't work in the local markets.
- 3) Moreover, the practice at local companies shows that in many cases the strategy which is turned into indicative KPIs (Key Performance Indicators) can be transformed with 50% wrong estimates.
- 4) BSC focuses only on financial and non-financial measures in the areas of financial performance, customer satisfaction, business processes and organizational growth<sup>4</sup>, but without any specific individuals' (personnel) involvement and contribution. It doesn't consider the individuals' initiatives that could be suggested by employees, and therefore, the personal approach is ignored.

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<sup>3</sup> *The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. It was originated by Drs. Robert Kaplan (Harvard Business School) and David Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance.*(<http://www.balancedscorecard.org/>)

<sup>4</sup> The Balanced Scorecard: Translating Strategy into Action. Kaplan, R. and D. Norton Harvard Business School Press, 1996

One of the HRM reports has also confirmed, that for other countries “the problem is the diversity of conditions in the subsidiaries, and the practices we follow in the USA do not always translate well in the local context.<sup>5</sup>”

### 3. Managing Company in a Time of Recession with the use of locally developed HRM models

In the absence of broad applied practices in HRM field, the local labor market seeks for its own solution, because the current time of recession requires top managers to react quickly, and quite often, in the conditions of an absence or change their strategic goals.

One of the *suggested models* of company’s HR management that has been developed and successfully applied during the last 1.5 year in the time of financial downturn is described here.

This model is called the “Motivation Maps”(MM). It was developed<sup>6</sup> at the request of the telecommunication company “Arna”/“Ducat<sup>7</sup>” in 2007, when the first signs of crisis became obvious. This system is generally based on the *Performance Indicators* with their numerical results in a certain developed matrix system, and this model takes into consideration all factors that are not applied in BSC model.

There are certain **key principles** of “Motivation Maps” system:

1. This HR model is constructed using “bottom-up approach” (vs. “a top-down approach”, when strategy goes from the top), and the basic indicators are constructed on the pyramidal way – from the most general to more specific indicators
2. It is based on 7 different value-added cost’s indicators of each Department (like “a 7 musical notes<sup>8</sup>” - ascending scale)
3. In addition to 7 indicators (which are different from Department to Department), there are 2 indicators that are common for all Departments (they are called “the indicator of initiatives” and “the indicator of revealed shortcomings”) This principle is based on a golden rule of management: "Magic (7±2)" principle<sup>9</sup>
4. All indicators are divided into 3-types: qualitative, quantitative (among 7 basic indicators) and descriptive (among 2 common indicators), but their results are always a numerical ones.
5. Out of 7±2 indicators; the key 3 indicators are selected by each Department as strategic ones
6. All indicators are constructed in developed 1 page matrix system with 4 columns (formulation of indicators, its numerical current number, explanation of this indicator and the financial, economics or business results expressed in figure)
7. After a 3 months’ period of its implementation, this HRM model “MM” can be clearly illustrated in graphs constructed on a monthly basis.

<sup>5</sup> HRM overseas in MPS: Report by Jim Grant. /Medical Precision Systems (a US-owned company based in Alabama)

<sup>6</sup> Developed by the author of this article

<sup>7</sup> Official name is “Arna”, but the name of Ducat (Brand) is quite often used as a second name of the company

<sup>8</sup> like an ascending scale (in Music)

<sup>9</sup> Psychologist **George Miller** ([http://en.wikipedia.org/wiki/George\\_Armitage\\_Miller](http://en.wikipedia.org/wiki/George_Armitage_Miller)). He was a Fulbright Research Fellow at Oxford University and served as the President of the American Psychological Association and published the original study “*The Magical Number Seven, Plus or Minus Two: Some Limits on Our Capacities for Processing Information*”, which was published in *The Psychological Review* in 1956. Miller was studying the limitations of short-term memory and concluded that there is a limit to the amount of items the immediate memory can retain: (7±2).

*Motivation Maps* scheme uses a full range of qualitative and quantitative indicators that show performance of all targeted indicators and suggested initiatives with revealed shortcomings within a month period. All processes in company can be observed through an introduced Motivation Maps' diagrams which are based on the numerical results of each indicator in the matrix table of MM. In the case of organizational change, it's possible to assess whether the changes have been effective or not through the fluctuations in diagrams.

The **advantages** of this system are the following:

1. The top-manager or the owner of company can see a **fully transparent picture** of company's results on one-two pages' graphs, and another page of suggested initiatives, and discovered problems, which allows a top-manager to **make a quick decision**. Moreover, it becomes very effective in the time of economic recession due to employee's initiatives transparency which helps to use the people's ideas and innovations based on the market, science and technological factors
2. It can be seen **where exactly** the areas for increasing profit, reducing cost or improving the quality thanks to 2 indicators that are common for all Departments, sub-departments (in addition to 7 basic indicators), and **who makes** this contribution (which greatly motivate the personnel. It also provides additional opportunities for the motivation: bonuses or promotion of employees. If this system is used only for practical management (without motivation of employees), the system of **Motivation Maps (MM)** in this case is becoming an **Operations' Maps (OM)**
3. It allows to reduce cost due to the quickly discovered weaknesses or losses at all levels and select those initiatives of employees which used to be hidden (because an initiative could be lost at the lowest sub-department's level due to bureaucracy)
4. In the absence of a clear strategy from the top-management, all employees know their "mini-strategy" via introduced 7 indicators and selection of 3 key indicators that are clearly described and measured. In the case, the owner/top-manager changes a strategy; the key 3 indicators could be re-considered out of 7 available applied indicators and officially approved.
5. In the case of duplicating indicators, the similar trends have to be observed on graphs. In the case of some overlapping activities (that are becoming obvious under the application of this system), the business processes have to be re-considered via indicators and clearly described.
6. In the case of re-organization of company's structure, the indicators could be easily adjusted towards it, and this HRM system of MM(OM) allows to measure how the new organizational structure is effective (by comparing the new results of indicators with the old ones). It shows the effectiveness of organizational structure due to the numerical measure of all indicators.
7. The system allows making a cross-check and re-check of the results at all levels of company comparing the trends.

In the absence of external funding, the top-manager can always find the internal sources of cost reduction and see the new opportunities in the time of recession based on Motivation Maps HRM system.

In order to compare the activities of company with their competitors, and in the absence of clear strategy, there is an *additional recommendation* here to include *some* indicators based on the certain factors, used by rating agencies (for instance, Moody's). For example, there are **6 core factors** that are used by Moody's telco for rating the company's outcomes: a) Operating Environment, b)

Strategy and Execution, c) Technology, d) Financial Strength, e) Developed or emerging market and f) Generic rating factors – and all of them are expressed through the specific indicators that could be taken to see how the competitive advantages of company are changing.

There is increasing evidence supporting the notion that HR practices are effective when combined. For example, Laursen (2002) studied 726 Danish firms with more than 50 employees and found that HR practices influence innovation performance more when applied together than as individual practices. Additionally, application of complementary HR practices is most effective for firms in knowledge-intensive industries<sup>10</sup> (like in our case).

Why this system is called “**Motivation Maps**”?

1. it is an illustrative **map of actions** for each department/sub-department and a mini **anti-crisis program** that could be united into a strategic anti-crisis program of company
2. it illustrates the performance not only of the whole team, but also each individuals’ innovations at all levels, which gives a positive energy and **synergy effect for motivation** of all teams in the company
3. the results are numerically measured, which show the value-added cost, based on which the top-managers can clearly see **which activities are to be motivated** and at which particular level of company (through the selection of key indicators)

The system of 7 indicators were developed and applied for all Departments, Sub-departments and sub-sub-Departments<sup>11</sup>. The introduced scheme became operational and applicable since December, 2007. At present, there are registered indicators of Motivation Maps for one year of company’s activities with the impulses of all changes, and the registered weakest chains and suggested decisions/initiatives coming from the different levels of organizational structure that help preventing company from internal undesirable losses.

#### 4. HRM practices in different countries

The important thing is that the United States has a reach practice of applied research in all sectors, including telecommunications services. Center for Advanced Human Resources Studies published the results of *Cornell-Rutgers Telecommunications Project*. In 2003, when there was a second national survey of the telecommunication industry, a sector was recovering from one of the worst recessions in its history. Managers have had the difficult job of crafting appropriate business strategies and human resource practices in the face of technological uncertainty, volatile demand and price competition. The same processes in this sector are currently taking place in Kazakhstan, but the reason has a different nature, and it is mainly connected with globalization of the world crisis.

The HRM models are influenced by national, sectoral and organizational factors and that is why not necessarily strong in all western countries.

The more critical evaluations of HRM models expose internal paradoxes. John Purcell, for example, argues that a body of US and UK HRM literature has led to extravagant claims on the universal

<sup>10</sup> HRM and “best practice” Based on Chapter 24 of Human Resource Management in a Business Context (2<sup>nd</sup> Edition) by Alan Price – published by Thomson Learning

<sup>11</sup> The organizational structure in terms of division is organized as “Департаменты, отделы и службы” (3 levels)

applicability of the best practice model, which suggests “one hat fits all” for successful HR activity<sup>12</sup>. Regardless of the rationale of the nature of its practice, HRM has become a common label for various forms and functions of people management. The diverse interpretations of HRM are apparent when we compare practices in difference countries and organizations.

For instance, Wächter and Muller-Camen (2002), noting the importance of German businesses to the European economy, suggest that a well-functioning HR system would be expected. But a number of comparative studies have found HRM in German companies to be less strategically integrated and proactive than that of similar businesses in other countries.

In the countries of East Asia has been phenomenal growth in foreign direct investment over recent decades. The implications for HRM have been twofold: *first*, corporations have often found themselves managing workforces in countries with very different political and economic systems and cultures; and, *second*, at least in the early stages of their investment, those firms have had the task of placing expatriate managers in countries that were outside those persons' experience. In both matters there have been difficulties<sup>13</sup>.

Companies and researchers are looking seriously at how effective Human Resources management and Human Resource Development can build more substantial organizations in a healthy economy. The recession is about the creative Human resources management. The HRM Function is asked to bring new ideas, to change the HRM Processes and to develop or change the procedures. There are the new challenges for all decision-makers during a global recession, and innovation process in HRM practices is one of them.

I would like to finish this article by the words of Slavoj Žižek<sup>14</sup>, the international director of the Birkbeck Institute for the Humanities at London University, who was voted as one of the world's top 25 intellectuals by the readers of Foreign Policy magazine's website last year: “The problem is today that when you have chaos and disorder, people lose their cognitive mapping. So it is an open struggle as to whose interpretation will win”.

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<sup>12</sup> Human Resource Management, chapter 17 page 467

<sup>13</sup> Asia Pacific Journal of Human Resources, Vol. 35, No. 2, 3-15 (1997) *The Cultural Context of Human Resource Management in East Asia* **Bruce W. Stening**, Australian National University **Evelina F. Ngan** Australian National University

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