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A cloudy economy's silver lining

PERSONNEL DECISIONS, IF PROPERLY MANAGED, CAN RESULT IN A STRONGER AND MORE COMPETITIVE ORGANIZATION

IN TOUGH ECONOMIC TIMES, corporate executives need to make the best of a bad lot. Typically, orders and sales are declining, while costs are rising – a double whammy on net income. “Hard costs,” such as raw materials and transportation, cannot easily be negotiated downward. On the other hand, the “soft costs” of production capacity, marketing and personnel can be controlled to some degree. Plants can be shut down (or their shifts reduced), advertising curtailed and headcount cut.

As any CEO or other senior executive knows, virtually any cost-cutting measure of significant importance carries hidden risks. (We are not talking about reducing country-club memberships or first-class airline travel, should either of those perks continue to exist in your company.) In most cases, manufacturing shutdowns cannot be accomplished overnight or quickly reversed – meaning that the risk exists that capacity will disappear just about the time the economy turns around. Likewise, wholesale marketing reductions run the risk of having the opposite effect of that intended: Instead of being responsive to reduced customer and consumer demand, they may end up making it worse. No organization wants to give up market share, unless one can make sure the best customers remain while the worst walk away.

So why not take out the axe and whack away at headcount?

Certainly there is deadwood in almost any organization, and headcount reductions offer the opportunity to eliminate duplication, improve productivity and reduce costs. The devil of course is in the details, and this is where corporate thinking sometimes gets fuzzy.

Since economic downturns are cyclical and in recent times have happened every 7 – 10 years or so, institutional memory is not as good as it ought to be. People have changed jobs, new leaders have been hired and new policies have been adopted. The downsizings and hiring freezes of yesteryear have been long forgotten, as have their consequences. It's a brand-new world of opportunity and peril.

Why the Easy Solutions Continue Not to Work

EMPLOYEES REPRESENT your organization's past, present and future. For better or worse, they have made it what it is today – and what it is likely to become. The more skillfully one manages their hiring, development and tenure with the organization, the better the outcome will be.

As past downturns have proven, over and over again, surgical reductions and replacements beat mass firings and hiring freezes. The lure of across-the-board cuts and no-new-hiring policies is that they do not allow for exceptions or favoritism; in a perverse kind of way, they seem “fair.” Of course, that is precisely the problem.

No two units or departments within a complex business organization are ever exactly the same. In one, superstars may shine brightly, while in the other there are mainly dim bulbs. To mandate, for example, a 10-percent reduction for all is to penalize the well-run operation and to reward the poorly managed one. (“Thank heavens we only had to cut 10 percent!”) Likewise, a growing operating division may be in need of a marketing star who

can take it to the next level. If that person becomes available the week after a hiring freeze begins, is the division supposed to make do with the people it has on hand?

Selectivity, especially on the firing end, requires careful documentation of individual performance in order to avoid wrongful termination and age discrimination suits. From a strict convenience standpoint, it may seem easier to impose a company-wide reduction in force and rely upon a job-elimination defense – buttressed in turn by a hiring freeze, proving that Sam or Mary was not replaced.

But, not only do too many of the wrong people and too few of the right get fired, broad-brush personnel actions frighten the employees who are left. People aren't dumb, and most know which of their fellow workers deserve jobs and which don't. Indiscriminate terminations suggest that the axe could fall at any time on those remaining – just to satisfy some quota from the top floor.

Plotting a Better Approach to Managing Personnel Costs

CHANCES ARE, there are people in almost any organization who are performing poorly. And chances are there are people performing jobs that don't need to be done. A large chemical company, for example, employed a highly paid expert to forecast economic trends. Rightly or wrongly, the forecasts had virtually no impact on production planning, which relied on order trends and anecdotal sales information from the field.

Tough economic times present a golden opportunity to examine each and every job, from both the standpoint of its utility to the organization and the costs if any of its elimination. There was no discernible cost to eliminating the economist's position, since no one relied on his information. Still other kinds of jobs may be important – but outside the organization's core capabilities to manage. (One thinks of benefits administration, travel services, foodservice operations and the like.) They are candidates for outsourcing.

It also is the perfect time to question those marginal performers who are not at the top of their game, yet whose performance was tolerated when the company rocketed along on double-digit growth. These B-level people can be given specific

goals for improvement, with firm deadlines for achieving them.

Last but not least, now is a good time to identify gaps in the management and professional ranks that are preventing the organization from reaching its full potential. In the words of *Wall Street Journal* columnist Carol Hymowitz, "Companies haven't been grooming and training enough employees for promotion and now have a mismatch of talent for open positions."

As just one example, today's global marketplace requires employees who are comfortable working in foreign countries, willing to relocate and skilled at tapping local sources of talent and information. Companies lacking formal management development programs may have a dearth of mid-level managers and above who can step into foreign opportunities with minimal preparation.

Another example is the increasing importance of the Internet to a company's marketing programs. McDonald's recently launched an online alternate-reality game called "The Lost Ring" to promote the Summer Olympics, which it is sponsoring. Mary Dillon, McDonald's chief global marketing officer, says the game is designed to "strengthen our bond with the global youth culture." It is a far cry from meat-and-potatoes (excuse the pun) TV advertising and requires a new breed of marketing person.

If yours is among the multitude of organizations that have placed talent management on the back burner, begin the process today of identifying gaps in your current workforce and deciding how to fill them. As any competent search consultant can confirm, many companies are pursuing the failed strategy of mass layoffs and hiring freezes – which means that more and more top performers are hitting the street, while others are increasingly disenchanted with their present employers and anxious to leave. Filling a key position opening with a seasoned star may be less costly in today's lean times than it will be a year or two today, and the range of choices may be greater.

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