

iProCon Insight

Mini Case Study: Managing your Human Capital in an Economic Downturn

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Managing your Human Capital in an Economic Down Turn

iProCon HCM ...

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As the tangible impact of the economic downturn begins to take hold, the press is constantly littered with headlines such as "Banking giant plans 11% jobs cut" (*Reference to Bank of America announcing plans to cut between 30,000 and 35,000 jobs over three years following the completion of its takeover of Merrill Lynch*). But what is the story behind the headlines? How are companies making the decisions to cull? And what type of organization is left behind?



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There is no doubt that in times of a downturn companies need to ‘stream line’ or ‘right size’ to deal with challenging market conditions. From a Human Capital view point however the dilemma of culling a work force represents two significant challenges:

1. What are the right areas to cut without eroding your competitive advantage?
- And,
2. How do you keep those that remain in the organisation engaged and motivated?

Major economic downturns evoke a range of emotions and responses from executive management, but mostly the natural reaction is retrenchment, occasionally coupled with a desperation to cut costs. This is often translated into short-term actions that can hinder an organisation's ability to make the most of market opportunities when the recovery starts. For these types of responses, methods for identifying which people to cull range from the generic “let's cut 10% of staff across the board” to the more astute

identification of business areas which are seen as ‘value-adding’ and profitable and as such are ring-fenced from any cuts.

However, there are other methods being utilised, some of which are interesting and others, which are probably best avoided. We have been surprised by some of the methods recently deployed by seemingly intelligent large organisations.

In its desperation to cut costs quickly, a large multi-national recently offered all of its senior management the opportunity to take a redundancy package. The promise was that anyone who put their hand up to go would be able to walk away with an attractive settlement; no questions were asked as to how necessary the individual was to future profitability.

Far from improving the company's performance it is likely that the organisation in question will be feeling the pain of this decision for many years to come. When such universal offers are put the workforce, it is usually the very best that pack their boxes, bank the cheque, and walk out the door. It is a sure fire way to trigger an immediate brain drain from your organisation's talent pool.



'Picking the right people to go is crucial, but what about those that remain?'

Recessions can provide platforms for innovation and growth, and therefore businesses must resist the temptation to believe that short-term culling of staff (and especially in such an unsophisticated way) is the only way to preserve profitability.

At iProCon HCM we have developed the CAT approach (Causal Analysis Technique), which identifies the areas within the organisation from which it derives its competitive advantage, and hence sources of profit. The CAT looks at the company's core differentiators, those unique order winning or qualifying criteria which lead its customers to choose their products or services over those of their competitors. By understanding these criteria and creating a relationship map showing how value is delivered to the customer, CAT delivers an in-depth understanding of the tools, processes and most importantly the people within the organisation that should be protected or enhanced to maintain profitability. It will also provide an organisation with the insight to adequately challenge the validity of other areas that may fall outside the value relationship, and as such are ripe for efficiency drives.

So picking the right people to go is crucial, but what about those that remain? In the period post any headcount reductions organisations can find themselves in a state of flux, where the workforce are in an apprehensive state. At this stage organisations need to focus heavily on engaging and appropriately incentivising those that remain. Companies should focus on setting performance targets that have a quantifiable impact on results, leading to adequate rewards for the best people, who are then more likely to stay through uncomfortable times. To achieve this, organisations should consider three actions:

- **Re-align Targets** – Avoid disillusionment by revising targets to ones that are applicable to the market conditions.
- **Review Total Reward Package** – Review the softer aspects of the reward package; for example flexible working arrangements are seen as an effective way of engaging and retaining key staff as they accommodate individual's unique circumstances.
- **Communicate the Vision** – Workers are less likely to remain in the state of flux if the vision for transformation is understood (i.e. it is understood that the rationale for workforce reductions is to sustain the company's long term viability).

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