

# ***The new economic environment***

## **A strategic workforce perspective**

**November 2008**

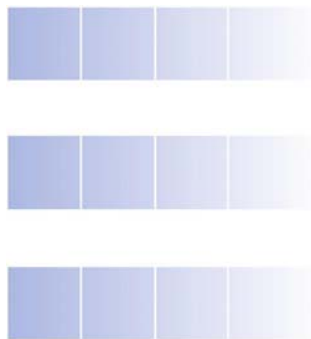
Recent events in the financial markets have pushed the global economy deeper into an economic slowdown. As companies around the world have lost significant market valuation, they are revisiting their growth projections and bracing themselves against a worsening outlook. Already we are seeing a noted increase in the U.S. unemployment rate to 6.5 percent in October 2008, with more than 1,000,000 jobs lost during the year.<sup>1</sup> The U.S. financial services industry has been significantly impacted by this turmoil and has, according to the outplacement firm Challenger, Gray & Christmas, Inc., lost over 102,000 jobs in the first nine months of 2008.<sup>2</sup> Similarly, the unemployment rate in the United Kingdom rose in the second quarter of 2008 by .4 percent to 5.8 percent, with over 164,000 individuals displaced between June and September.<sup>3</sup>

In previous economic downswings, strategic workforce issues have often been displaced by the short-term demands of quickly reducing headcount and other variable costs. However, in many industries, previous downturns and subsequent layoffs have already “trimmed the fat” and have left companies operating with fewer employees with greater responsibilities.

These difficult times require organizations to take a closer look at the current composition and capabilities of their workforce, determine their short- and long-term workforce needs and make more informed decisions about the talent they need to survive and, eventually, thrive. Organizations will need to take an integrated approach to their talent management activities, and more tightly link their planning, recruitment, development, motivation and retention processes. By doing so, organizations can use this downturn not just to reduce headcount, but to position themselves for future opportunities.

To stay one step ahead in these difficult conditions, organizations should:

- Make resourcing decisions based on capabilities and gaps
- Focus attention on core versus non-core work activities
- Differentiate high (and low) performers across the organization
- Transfer critical knowledge and stimulate social network development
- Consider the use of more flexible work environments
- Identify opportunities to improve HR and learning efficiency
- Enable leadership to guide individuals through the change.



## Make resourcing decisions based on capabilities and gaps

In an economic downturn, it is easy for organizations to turn to large-scale downsizings to reduce costs and maintain profitability. However, many companies fail to understand the mix of skills and capabilities necessary to drive value in the new business environment. At a more detailed level, they find themselves with a lack of information regarding supply and demand for employees needed to fill critical positions and the associated costs of maintaining or rebuilding these resources in the future.

Without an understanding of these gaps, the organization leaves itself open to making decisions that jeopardize its ability to stay afloat during the crisis. For example, an organization may choose to simply freeze all training as one way to manage costs. However, if sales training is necessary to improve the revenue-generating capability of the sales force, this short-term savings may be negated by a loss in productivity.

Further, a lack of understanding of current and future needs can hamper the organization's ability to take advantage of competitors' misfortunes. Layoffs in the broader market can increase the availability of individuals with specific skills that would be difficult to come by during times of expansion. Experienced baby boomers, facing a declining stock portfolio and decreasing home prices, may be willing to remain in or reenter the workforce. On a larger scale, difficult economic conditions may provide the opportunity for organizations to acquire entire divisions or companies, with the potential to significantly increase the company's bench strength and/or extend its reach into new or emerging markets.

To make appropriate resourcing decisions, organizations need to have a consistent taxonomy of skills and competencies to help make sure that different functions and business units have a common, global view of their resource requirements. This will allow them to more easily shift resources with valued skill sets from low to high-priority areas. Organizations also require a workforce analytics capability that can identify both the current and projected internal supply and demand for individuals in critical jobs and roles. Without these tools, organizations are likely to place themselves at risk for either leaving themselves shorthanded at precisely the time they need to increase productivity, or missing opportunities to take advantage of competitor distress.

## Focus attention on core versus non-core work activities

As part of its talent assessment, an organization should review those work processes that are core to its current and future strategy and examine the potential for outsourcing non-core activities. By outsourcing activities not central to the organization's strategy, such as HR administration, IT desktop support and accounts payable administration, companies can shift these functions from a fixed to a variable cost model, making it easier to adjust costs with changes in the overall workforce size.

For example, organizations needing fewer employee call center representatives or recruiters during a downswing in their business cycle can more easily adjust their staffing levels using an outsourcer, rather than continually letting go and rehiring their own employees.

Outsourcers can also provide specialty services, such as merger and acquisition integration assistance, that would be too costly for organizations to maintain on staff. This can enable the firm to act more quickly, as well as reduce the transition time and costs associated with one-time events.

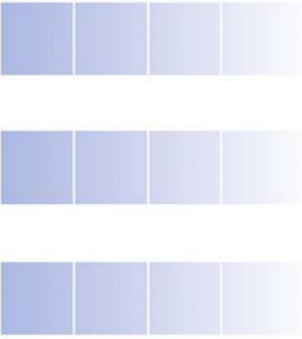
### **Differentiate high (and low) performers across the organization**

Faced with the prospect of impending job cuts, those most at risk for leaving are often the organization's most valuable employees. These are individuals in greatest demand from the outside labor market and who are most likely to take advantage of programs that encourage voluntary separation. At the same time, these potential departures represent a significant risk to organizations; high performers not only drive productivity, but also serve as an early warning signal to others considering the company's future viability. This is particularly true for leaders that will be needed to deliver both short-term results and guide employees through the downturn.

To address this issue, companies need a clearly defined process for managing and differentiating employee performance. While organizations may have a general sense for their highest (and lowest) contributors, relatively few have consistent approaches for evaluating and comparing employee performance across functions or business units. Further, they often lack the capabilities to model and view these performance differences at a global level. Often, this lack of a consistent process forces organizations to scramble in making retention and reallocation decisions. Not only does it make it difficult to target and develop programs to hold on to the most productive employees, it hinders making defensible decisions should layoffs become necessary.

### **Transfer critical knowledge and stimulate social network development**

During periods of retrenchment, organizations are particularly vulnerable to losing their institutional memory – both formally documented knowledge and informal insights gathered through daily interaction. Challenges organizations face with respect to managing organizational knowledge in a downturn include:

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- Voluntary attrition programs, and more specifically, early retirement programs, tend to target those with the most experience and institutional memory.
  - During downsizings, informal social networks are damaged, as individuals who often serve as key bridges across departments and/or projects leave the organization. For many companies, they are often unaware of the value of these individuals and may not target these individuals for specific consideration in terms of potential retention and redeployment.
  - In challenging economic times, organizational trust is often eroded, as employee reductions have a powerful effect on how individuals view their relationship with the organization and their colleagues. Some people may see layoffs as breaking an implicit social contract and may respond by withholding knowledge (overtly or

unconsciously) critical to organizational success. Further, employees may be reluctant to share specific knowledge they see as pivotal to their ability to keep their jobs.<sup>4</sup>

- Tightened business conditions may remove the slack time needed for sharing knowledge effectively. Time that used to be spent improving skills, reviewing projects and sharing experience evaporates. People struggling to stay on top of day-to-day routines are less likely to mentor junior employees or share relevant knowledge with colleagues.

Companies that anticipate the loss of knowledge in key parts of the business should prioritize the areas where critical knowledge is being held and identify opportunities where this knowledge can be either codified (where possible) or shared among a larger audience, such as a community or project team.<sup>5</sup> These could include activities such as conducting video interviews or podcasts with subject matter experts, developing wikis that link to key content, facilitating communities around key issues facing the organization, job rotation and mentorship opportunities.

However, it is important to note that knowledge preservation efforts are most effective when they are built into the normal course of business activities. Once layoffs are announced, or perceived to be imminent, participation in knowledge-sharing activities will be squeezed out by more pressing concerns. While some organizations have attempted to tie severance packages to knowledge transfer activities, typically these efforts result in only a basic level of knowledge exchange.

Understanding critical social networks can also help identify individuals who are valuable conduits and play an important, if not always visible, role within the organization. By identifying the value that these individuals generate, organizations can make more effective decisions in retaining and redeploying such individuals and the groups they connect. For example, someone who serves as an informal “connector” between the sales and marketing group could play a valuable role in leading a “SWAT team” designed to quickly generate sales from new accounts.

For companies able to bring on new employees, either through individual hires or full-scale acquisitions, enabling new employees to develop informal networks plays a critical role in reducing their learning curve and increasing productivity. Facilitating connections and relationships can help individuals identify relevant experts more rapidly, share knowledge more easily and reduce the risk of early attrition from valued newcomers.<sup>6</sup> Having a common employee profiling capability can also make it easier for individuals to find others with relevant knowledge within the organization – facilitating the development of new networks when outsiders are brought into the organization. Onboarding experiences that allow individuals to build new contacts, education around new processes, expertise location systems and communities of practice can all help in developing needed social capital among new hires and existing employees.

### **Consider the use of more flexible work environments**

Companies looking to reduce employee overhead costs, while also increasing employee productivity and morale, should look closely at roles that could be accomplished virtually. Our experience working with clients, in addition to our own IBM journey, suggests that many



types of jobs can be performed effectively through the use of telecommuting. Not only does telecommuting decrease the need for office space, but it also reduces employees' commuting costs and stress and enables them to be more flexible in managing their overall workload.

Telecommuting requires more than simply allowing people to work from home. It involves a reexamination of how work is executed on a day-to-day basis, how individuals collaborate and how they are managed, evaluated and incented. It necessitates a different model for delivering HR and IT services, corporate communications, and a host of other support functions. It requires a results-oriented corporate culture that recognizes performance over visibility. However, when implemented correctly, both employers and employees can reap the benefits associated with lower real estate costs and greater employee flexibility.

**Identify opportunities to improve HR and learning efficiency**

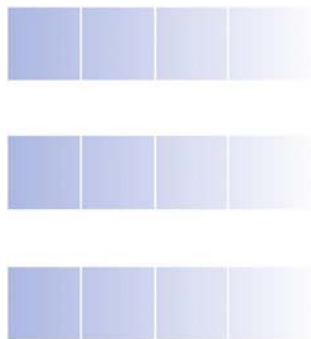
Two areas where organizations should look to uncover potential cost savings are HR and learning administration. Within HR, there are often a number of inconsistent and cumbersome manual processes, “shadow organizations” that duplicate internal resources, a variety of external vendors that provide overlapping services and other redundancies that increase overhead and sap time and attention away from addressing more pressing talent management activities.

Successful organizations have found significant opportunities to reduce administrative costs through the use of streamlined HR processes that eliminate non-value added activity. Employee and managerial self-service can also reduce the amount of paper transactions and associated handling costs and free up HR staff from repetitive questions. The use of shared services for managing employee contact centers and HR transaction processing can not only consolidate HR headcount, but also maintain consistency in employee services and improve HR data quality. As discussed earlier, the overall outsourcing of these tasks can also help manage costs more effectively as well.

From a learning perspective, organizations can review not only their current use of outside vendors, but also closely examine the mix of classroom education versus distributed learning. Blended learning programs can reduce travel, real estate and production costs, as well as increase employee productivity by conveniently delivering insights as needed. Standardized learning management and development platforms can also help organizations reduce their administration overhead. Moreover, they can effectively monitor and track the impact of different learning programs, making it easier to allocate resources to those that deliver clear results.

**Enable leadership to guide individuals through the change**

In times of economic crisis, leaders play a central role in retaining and motivating the remaining talent within the organization. Individuals' thirst for information during times of great uncertainty requires that leaders step up and take a proactive role in addressing workforce concerns while simultaneously tending to the demands of the external market. Yet, a recent study by the public relations firm Weber Shandwick indicates that 54 percent of American workers say they have received no information from their employers about the

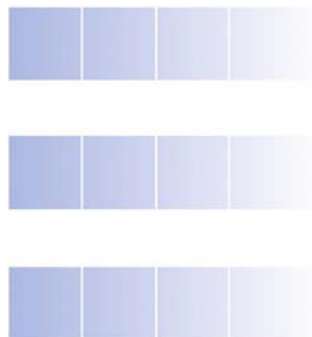


difficulties in the economy, while 71 percent say they want to hear more from leaders about this topic.<sup>7</sup> Successful organizations recognize that, to retain the talent needed to weather the situation, leaders must be:

- *Visible* – In the absence of information, individuals will quickly fill the vacuum with speculation and rumor. Effective leaders take the time to keep their employees aware of the latest developments that affect them and their teams. This includes not only face-to-face meetings, but also sharing information with individuals whom leaders may have responsibility for, but do not see on a regular basis.
- *Engaging* – Not only do successful leaders share information, they find ways of involving employees as part of the change process. They provide opportunities for individuals to vent their concerns, offer suggestions for improvements and channel energies away from the inevitable distractions that occur during times of personal and organizational challenge.
- *Values-driven* – Leaders treat all individuals, even those who are losing their jobs, in a respectful manner that reflects the company's espoused values. In today's world of social networking technologies and Internet bulletin boards, a firm's reputation can be significantly damaged in a moment. For example, stories of companies that notified employees of their dismissal by e-mail or text message continue to be retold even years after the events. If firms hope to hold onto and motivate their remaining valued employees, and be perceived as a desired employer during future growth periods, they need to be mindful of how their actions are perceived by a range of internal and external stakeholders.

## Conclusion

Today's economic slowdown can serve as a catalyst for organizations to take a more strategic workforce perspective. It can create the impetus for organizations to take a more intelligent, fact-based approach to understanding their current and future talent needs and requirements. It can provide companies with the opportunity to fill needed gaps through targeted hiring from distressed competitors and selected skill development. Most importantly, it can drive the mandate for overall workforce transformation – a rethinking of the work that must be done, the manner in which individuals accomplish the work and the role senior executives need to play in helping the organization through difficult times.





*Note: Ed Burek, Nancy DeViney, Alan Hewitt, Job Horbeek, Eric Lesser, Holly Payton, Wayne Peat, Tim Ringo, Mary Sue Rogers, Scott Smith and Sonia Van Ballaert contributed their thoughts to the development of this perspective.*

To discuss the implications of this perspective for your workforce and the HR organization that supports it, we invite you to e-mail one of the following contacts:

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<sup>1</sup> U.S. Bureau of Labor Statistics. November 2008

<sup>2</sup> "Announced financial cuts breakdown through September 2008." Challenger, Gray & Christmas, Inc. September 23, 2008. <http://www.challengergray.com/press/Financial%20Cuts%20Breakdown.pdf>

<sup>3</sup> UK Statistics Authority. October 16, 2008. [www.statistics.gov.uk](http://www.statistics.gov.uk)

<sup>4</sup> Lesser, Eric and Laurence Prusak. "Preserving Critical Knowledge in an Uncertain Economy." *Sloan Management Review*. Vol 43, No. 1, Fall 2001.

<sup>5</sup> Casher, Amy and Eric Lesser. "Grey Matter Matters: Preserving Critical Knowledge in the 21<sup>st</sup> Century." IBM Institute for Business Value Executive Brief.

<sup>6</sup> Rollag, Keith, Salvatore Parise and Rob Cross. "Getting New Hires Up to Speed Quickly." *Sloan Management Review*. Winter 2005. Vol. 46, No. 2.

<sup>7</sup> Weisman, Robert. "For Employers, a Quandary: Speak of Woes or Wait?" *The Boston Globe*. November 15, 2008.

