

People Practices in an Economic Downturn



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INTRODUCTION

At this point, in late 2008, there is no doubt that the United States, and the rest of the world, is in the midst of an economic downturn. No one is certain precisely how low the downturn will go or how long it will last. Organizations are weighing their options and trying to decide how to weather the storm. A key component of an organization's response involves its people practices.

Unfortunately, the typical response to an economic downturn is mass layoffs, which contribute to the economic malaise and in the long term cause several problems for the companies that engage in them. More on that later. Layoffs are sometimes necessary and are a quick means to reduce expenditures, because employee costs are often a very large part of an organization's budget. However, companies need to look at more than reducing employee expenditures. Management should also be looking at this time as an opportunity to seize larger market share through developing its competitive advantage. Additionally, this downturn will end. How will the company be positioned to switch from weathering the storm to growth?

There are many choices; that is the subject of this white paper. The choice an organization's management makes depends upon a number of factors, so one approach doesn't work for every company. Among the factors:

- economic conditions
- industry
- business model
- competitive strategy
- financial position
- basic philosophy on the employment relationship

In the following pages, we will consider strategies relating to cost containment, competitive advantage, and positioning for growth. We'll outline options for consideration as some of the advantages and disadvantages. This white paper will not provide all of the information or support you may need. Feel free to contact Venture HRO, LLC for additional assistance. Go to "Contact Us" at www.VentureHRO.com.

It is possible not only to survive but to be successful in tough times. True, many people and businesses are spending less. But there is spending. Many businesses will fail—but businesses fail in good times as well. Obviously, businesses that have underlying weaknesses are going to have an especially tough time and may go under.

How do we make sure we are one of the survivors that come out of this downturn in good position to capture markets when they begin to open back up? We should be planning this now.

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CONTROL HUMAN RESOURCE COSTS



The first step organizations tend to take in any economic downturn is to reduce HR costs. Even though the first choice is always to increase revenues, one should always be looking for cost-effective practices, even in the best of times. And sometimes, there just isn't another appropriate choice.

Often, management's thoughts go directly to reducing overtime and having a layoff. Under certain circumstances, these are appropriate choices, but it is important to consider other measures as well.

Options

Here are a variety of options to consider when trying how to reduce employee-related expenses:

- **Slow down hiring and increase the lapse rate.** Even small periods of position vacancy add up to significant monies.
- **Increase the use of contingent labor**—temporary and contract labor. This reduces the cost of benefits and increases your flexibility to respond to the rise and fall of demand for your products/services.
- **Manage overtime.** While it is a good idea to pay attention to overtime, some overtime may reduce the need for additional hires. Companies should weigh the expense of needed overtime by experienced workers versus the cost of an additional person and the effect on customer service.
- **Reduce hours of work.** Most employees would prefer to have their work week reduced than to lose their job—or to see a valued co-worker laid off. This also allows a company to keep valuable, experienced employees when business begins to expand again.
- **Consider other staffing options** such as telecommuting and flex time. These options are valuable to employees. Sometimes more so than cash. So, if a company is strapped for additional money for pay increases, these creative options may allow you to retain experienced employees. These staffing options may also save money in utilities and rent, depending upon their structure. However, there are issues relating to logistical support and how to monitor performance that need to be addressed.

- **Freeze pay.** Employees don't care much for this, but they understand it. And again, it is better than a layoff.

- **Restructure/re-bid benefit contracts.** If you haven't done a competitive bid on your benefits in 2 or 3 years, this is the time. A better deal may be available. New options exist under new statutes and regulations that may offer better tax advantages.

- **Look at travel expenses.** Is every trip necessary? Consolidate and/or eliminate. Look at using technology to reduce the need for travel.

What about layoffs?

Okay. Sometimes layoffs are a necessary evil. If a layoff is the answer, then:

- Determine the criteria that will be used to conduct the layoff and follow the criteria.
- Ensure the criteria used are legally supportable and driven by business objectives.
- Keep employees informed about what is happening and why.
- Treat affected employees like you would like to be treated in the same situation.
- If the WARN Act applies, follow the rules.

What is not here?

Reducing benefits. Reducing pay. Reducing training. Why? Because we need to build and/or maintain a competitive advantage, so we need the best talent we can afford and we need to retain that talent when the economy starts to pick up. Now, just because we don't cut these areas doesn't mean we can't restructure the mix or look for more cost-effective solutions. Considerations:

- Should we change the way we structure our total compensation to encourage innovation or to reward behaviors that help us build our competitive advantage and to satisfy customers?

- Is there a more cost-effective way to conduct training? Do employees need to travel or can we bring the course to them? Are there effective online solutions? How can we better leverage the knowledge from our more experienced work force to develop less experienced employees?

Communicate!

The goal is to keep your very best people. They are the employees most likely to look for and find another job when they sense your company is having a difficult time, because your

best employees **can** find another job. Economic turmoil is stressful for managers and for employees. Develop a communications plan. Talk to people.

Treat employees with respect.

When unemployment goes up, so does the number of employment-related lawsuits and regulatory complaints. Most of these actions are taken because the affected employees don't believe management cares about them or that management treated them with respect. It doesn't make sense to try to save money by cutting HR costs, just to spend that money (and more) on lawyers.

GAIN COMPETITIVE ADVANTAGE

Tough economic times in much of the country have made forecasting the future problematic and have made many businesses hunker down and set their sights on survival.

And yet, it is possible not only to survive but to be successful in tough times. True, many people and businesses are spending less. But there is spending. Many businesses will fail—but businesses fail in good times as well. Obviously, businesses that have underlying weaknesses are going to have an especially tough time and may go under.

How do we make sure we are one of the survivors that come out of this downturn in good position to capture markets when they begin to open back up? We should be planning this now.

Right now, the emphasis needs to be on ensuring that when our customers have a choice about purchasing products and services we sell, they choose us, and not our competitor. With potentially fewer dollars spent, there will be intense competition for those dollars. We all know that the primary drivers for purchasing decisions are price, quality and customer service. The choice a company makes in determining how to compete will determine the appropriate people strategies to come out on top of the competition.

Let's look at the three competitive strategies and some of the employment strategies that tie to them.

Competitive Strategy: Quality

- Hold on to the employees who do the best work; eliminate poor performers
- Develop performance management systems and reward strategies that reward behaviors and outcomes tied to superior quality
- Develop a high-performance culture
- Build or improve the organization's knowledge management system
- Focus training programs on job proficiency and quality management

Competitive Strategy: Price

- Develop a high-performance workplace, that focuses on process improvement
- Develop a performance management system and reward strategies that reward efficiency and low cost
- Look at head count reductions
- Focus training efforts on the most efficient ways to perform job functions

Competitive Strategy: Customer Service

- Hold on to the employees who have high customer relationship skills
- Develop performance management systems and reward strategies that reward behaviors related to excellent customer service
- Build or improve the organization's knowledge management system to ensure continuity to solve customer issues
- Focus training programs on customer relationship management

Other companies will be pulling back; now is the time to take their business. The goal of an organization's HR strategy should be to increase revenue and increase market share. Training and employee retention are vital.

PREPARE FOR GROWTH

This too shall pass. Whether in six months or two years, the economy will rebound and people and businesses will once again start spending. What an organization does now can mean the difference between having a leg up on the competition or playing catch up.



Once again, there will be a competitive hiring and retention environment. Baby boomers are likely to stay in the labor market during an economic downturn because of the devaluation of their retirement accounts. Once stock values return to higher levels, these boomers will be looking to retire or to reduce their work hours. When this happens, the demographics causing intense labor competition just months ago will return. The available workforce will continue to shrink.

What types of people programs should be considered as preparatory for company growth?

- **Workforce readiness.** This is a good time to work with your local educational institutions and chambers of commerce on workforce readiness and training issues to identify critical skills. Begin now to develop a trained workforce for the future.
- **Develop employment branding.** This is the way potential employees see the organization as an employer. Is this the kind of company they would like to work for?
- **Build and maintain a flexible workforce** through a combination of contingent and permanent workforces. This will allow the company to expand and contract as needed.
- **Develop a more effective recruitment and screening process** to find employees with critical skills.
- **Develop and institutionalize talent management strategies** that support the company's business strategy and train and develop employees and managers with the appropriate skill set.

The actions a company took during a downturn will now play a significant role in their ability to recruit and retain workers. These actions will affect the employer's brand.

Employees who stayed with their employer during the downturn will have more options for employment. Employees will feel a greater sense of loyalty to employers that paid attention to their talent management practices during difficult times. Those who feel they were not treated appropriately will have plenty of opportunities to leave. Those employers who took advantage of the downturn to develop more efficient processes, fine tune their competitive

advantage, and focus on competitive talent management strategies will have the advantage.

CONCLUSION

Many organizations may be wondering how they can afford to pursue these strategies in a fiscally constrained environment. In many cases, they can't afford not to. If your business strategy is to be your customers' provider of choice, there needs to be a reason for them to choose you instead of your competitor. Gutting your workforce of well-trained and high-performing employees is a sure way to put your company into a downward spiral that may put you out of business. Let that be "the other guy."

Many of the strategies discussed in this white paper require little or no significant investment, especially in a smaller company. Large companies may require investment in technology and software, that if properly implemented, should provide significant return on investment.

Now is the time to provide clear focus on people practices that can help your company thrive, not just survive, this economic downturn.



One size does not fit all. Venture HRO, LLC provides a range of HR business process outsourcing, allowing companies to scale services to fit their needs and their budget.

Additionally, Venture HRO, LLC provides strategic human resources consulting to help companies develop appropriate HR strategies to support their business goals.

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For more information, see our Web site at www.venturehro.com or e-mail admin@venturehro.com.

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