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Building Talent in a Time of Layoffs

by DeAnne Aguirre, Laird Post, and Louisa Finn

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Building Talent in a Time of Layoffs

Companies need to assess their workforces today, but they should also look at their likely needs as conditions change.

by DeAnne Aguirre, Laird Post, and Louisa Finn

Traditional layoff tactics may serve to cut costs, but they often cause damage both inside and outside the company that is hard to repair. A more thoughtful and strategic approach to layoffs will ameliorate the short-term impact while leaving the company poised for growth in the next few years.

As the economic crisis unfolded and the need for cash became vital, corporate leaders had no choice but to rapidly and decisively reduce their workforces. This has led to numerous rounds of layoffs in many industries in North America, Europe, and elsewhere, and continuing uncertainty about the economy is likely to lead to more.

But many executives also remember the lessons of past downturns. Layoffs are difficult and gut-wrenching and often fail to deliver expected cost savings or improved performance. In many cases, slashing jobs en masse serves only to weaken a company, leaving it vulnerable to competitors and constraining its ability to lead its industry in the future. That was problematic in past recessions, but it will prove particularly untenable in this period of dramatic discontinuity, when whole industries are shifting and the dominant players may well change.

Many corporate leaders are already rethinking their overall strategy with respect to target customers, capital sources, product portfolios, pricing, investments, and cost structures. But to implement these changes, they'll need to have the right talent in the right roles. Workforce reductions — those that companies have already conducted and those still to come — must not only deliver sustainable cost savings right now, they must also leave skilled and motivated people in critical positions to maximize the enterprise's present and future success.

How does a company achieve these seemingly conflicting objectives? It can't be done with the same approach that many companies fall back on: across-the-board cuts that seek "fairness" at the expense of competence. Instead, it requires institutionalizing a set of processes that we call "talent fitness," systematically matching employees' capabilities to the strategic needs of the enterprise: the right people in the right jobs at the right price in the right geography, and with the right critical capabilities the business needs to sustain itself and grow. When this regimen is followed, layoffs themselves become less painful, more cost-effective, and (perhaps most important) more understandable to the people of the organization.

Taking these five key steps will go a long way toward building a more effective workforce reduction process, while increasing confidence in a company's leadership —

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and helping to ensure that the company has the right talent in place as it emerges from the recession.

Step One: Stanch the Bleeding by Making Smart Cuts Quickly

First, if the company hasn't already done so, make selective cuts that can be easily identified. Set criteria for "smart cuts," and then ask leaders throughout the organization to identify individuals who meet these criteria. Some examples of obvious targets:

- Volume- and production-driven jobs: positions that provide coverage for demand or growth that has evaporated in the downturn and will not come back.
- Chronically poor performers based not on a "rank-and-yank" percentage-based system that boots out the bottom 10 percent, but on either established long-term competency appraisals or a survey of supervisors.
- People whose competencies no longer fit the company's future direction.

Beyond these cuts, do not lay off more people even if further cost cutting is necessary. Instead, pursue creative alternatives to further reduce labor costs while minimizing the negative impact associated with layoffs. The options for doing so are many, and include offering voluntary leaves of absence without pay, using contractors or part-time staff to reduce benefits costs, placing qualified employees in value-added joint ventures or startups with separate P&Ls, and reducing hours or establishing furloughs.

Before implementing any of these changes, conduct an analysis to estimate the potential cost savings and benefits of each alternative, including indirect costs, such as damage to customer experience, reduced workforce productivity, and increased turnover.

Step Two: Assess Capability Gaps

Whether or not the company is explicitly revising its strategy, identify those businesses and product lines that are most profitable, or potentially profitable, for the long term. Then identify the key capabilities (knowledge, skills, and behaviors) that people will need most to keep these businesses going. Finally, assess the capability gap that exists between the talent the company needs and the talent it has available. Focus first on finding or developing needed skills and knowledge sets.

Assess these skills in light of any process and technology improvements that are also being considered. This connection is often overlooked because many organizations develop business and technology strategy separate from talent strategy. It's all too easy to end up with a sophisticated new process in place, designed to instill innovative practices at lower costs — but without enough skilled people on hand to quickly implement it.

Answers to the following questions are instrumental in developing a deeper understanding of the kind of people the company will need to recruit or train going forward and how best to deploy them:

- Which segments of the workforce are most critical in delivering value?
- Is our value proposition effective in attracting, motivating, and retaining this critical talent?
- In what parts of the company does more or higher-caliber talent make the most difference in business performance?

In assessing their workforces, organizations often assume they need topnotch talent ("A" players) in all roles, yet this is neither cost effective nor necessary. For positions that are ancillary to delivering core competitive advantage, "B"- or "C"-level players may be adequate. For example, Apple Computer Inc. has been extremely successful in developing game-changing products that command a premium price. Having "A" players as engineers, product designers, and marketers has been key to its competitive success. Yet in many other areas of the organization Apple does not put as much effort into employing top-flight talent.

As the business strategy changes, people who were once key value creators may no longer fit. Periodically revisit workforce capability assessments, and make sure that recruiting and talent development stay aligned with the strategy.

Step Three: Assess People

Identify high performers who are a good fit with the company's future and core capabilities (from step two), and place a higher priority on developing and deploying them. Doing this requires a company-wide selection process, starting with assessments.

An assessment should consist of two steps. First, look at the workforce overall by answering these questions:

- How aligned is the current workforce with the organization's new requirements?
- Which parts of the workforce most need to develop new skills?
- Are there portions of the current workforce that could be redeployed and retrained to fill roles in growing parts of the business?

Second, translate those workforce needs into staffing criteria for different parts of the organization. Avoid the typical selection criteria used to make cuts: seniority (last hired, first fired) and political standing. Even measurable and scalable data, such as data on past performance, can be deceptive. In many organizations, performance management is a check-the-box exercise that does not reliably and consistently differentiate performance.

Instead, assemble a team to rapidly develop explicit criteria based on skills and relevance to the company's strategy. Include long-standing judgments of performance by experienced managers in each business or functional domain. A reasonably reliable and relatively simple set of criteria can be pulled together in a matter of weeks. With those criteria in place, managers throughout the organization can select employees for separation fairly and quickly based on an assessment of their fit relative to the key competencies and attributes required by the revised business strategy. Conducting an assessment of this sort can be quite effective and is far preferable to conducting none at all.

Step Four: Conceive and Execute an Effective Exit Process

Even with a strategy-based approach in place, it is still possible to lay off the wrong people for the wrong reasons. In the midst of a crisis, it is difficult to immediately identify people, especially at lower levels, who will matter most to the company's future. Some of the most common ways of "avoiding pain," such as attrition programs or voluntary severance packages, can encourage employees with critical, marketable skills to walk out the door. Most important, if the company's recovery strategy isn't clear and people requirements are poorly defined, those making individual layoff decisions will lack the guidance they need to make the right ones. Therefore, an effective exit process requires a program owner with a keen understanding of both future requirements and the best ways to separate employees while doing the least damage to the remaining organization. Managers must be trained and held accountable for making the right decisions about who goes and who stays.

Step Five: Ensure High Engagement and Productivity during the Change

The greatest damage to employee trust and engagement occurs during times of layoffs; some companies never manage to fully repair it. By taking certain measures now, however, the leadership team can stem cynicism, build greater confidence in the future, and retain key people while minimizing the impact on productivity. Layoff survivors will need to be reenergized, resold, and reengaged in the company's future.

During layoffs, generously share information — both good and bad news — as soon as it is available. Saying there is nothing new to report is better than periods of silence. During this time employees want to hear about the sacrifices being made at the senior ranks. Assurances that laid-off staff are being treated fairly and with utmost respect go a long way toward relieving the guilt and anxiety survivors may feel. Schedule frequent updates on the state of the company, progress on the new strategy, and the path to accomplishing it. Online surveys are a powerful tool for checking the pulse of the workforce on trust and engagement issues and surfacing concerns.

The pain of layoffs is probably unavoidable. But if the company uses this episode to address its long-standing talent challenges and to solidify its strategic direction, people will know that the company took the most viable path for the long run, and that they did not suffer this pain for a capricious or self-defeating outcome. Integrating people strategy with the business strategy will most likely translate to competitive advantage. There is an added incentive to making change during periods of economic turmoil — people are much more willing to acknowledge and accept that change is indeed necessary. Now is the time to make sure that, looking back, people will recognize that the suffering was necessary, because the company emerged stronger. +

Resources

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