



POST-RECESSION HR:  
LIKELY LEANER...  
BUT ARE WE WISER?

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## Post-Recession HR: Likely Leaner...But Are We Wiser?!?!

We've heard it all before and all too often: HR needs to be more strategic; needs to be more connected to the business or operation; needs to connect the things going on inside the company to things going on outside; needs to build the intangibles that create added market or social value, etc, etc. What we haven't heard much of though, is – what exactly does all of that mean? What does it look like? What specific steps can we take to meet those expectations?

The current economy, as painful as it has been for most of us, presents an ideal opportunity to address these various complaints or expectations of HR. To capitalize on it, HR needs to look at its world using the same lenses that our CEO's and business leaders are using to look at their respective worlds. Using that lens, you'll see four different areas of opportunity HR has – right now – to further enhance the way HR is perceived and valued in the organization. Please note that while we use the term "company" – the principles in this article apply equally to both for-profit and non-profit organizations.

### Opportunity 1 – Strategic Rigor, Alignment and Execution

**The Business Lens:** Most business leaders have already shifted their focus from cutting costs and protecting profits to generating growth and new revenue streams. Not that they have abandoned cost cutting – it's just that they know it's not a strategy that positions them to take full advantage of a rebounding economy. As such, their focus for the foreseeable future will be to:

- Generate, protect and effectively leverage cash.
- Continue pursuing productivity gains.
- Identify what their core business is and what the best growth opportunities are for that business.
- Get closer to, and partner with, their customers.
- Execute their strategy or operating plans effectively and consistently – if not flawlessly.

As a result, they are taking a more rigorous look at what their business model must be over the next couple of years, what markets they should be in and should exit, what products and services show the most economic promise and which ones to shed, what customers want or need most, what they are willing to pay, and the product/pricing options for going to market in a way that's economically and competitively optimal.

Looking rigorously at their core business includes focusing on the key capabilities they need to manage and advance that business. The capabilities we hear mentioned the most by C-Level leaders are building customer and brand value, innovation as a mind-set and excellence in execution.

First, are they identifying the unstated and unmet needs of their customers and delivering on those needs in a unique way that can't be easily replicated by others? Are they the supplier of choice in their customers' minds? Do they enjoy a customer loyalty to their brand that creates a competitive barrier to entry and drives substantial growth?

Secondly, are they embedding innovation as a mindset in each and every employee? This isn't just about product and service innovation, but about looking for ways to improve, combine, extend or refine processes, markets, supply chain, alliance partners, operating or infrastructure costs, selling costs, marketing ideas, cycle time and more. How can they create a company-wide restlessness about the status quo?

Thirdly, how can they build an end-to-end culture that executes their plans and goals in all functions and at all levels? Do they have the processes, metrics and players in place to monitor progress, quickly identify and address obstacles, and readily adapt when they see a new or unplanned opportunity?

**The HR Lens:** HR can and absolutely must play an active role in driving and shaping the strategic planning process. HR does this in one respect by asking tough questions – not about employee issues or wellbeing, but about employees' roles in implementing the strategy and the organization's capability to implement it. In fact, any of the questions mentioned above in the business lens could just as easily be posed by an HR leader. Such questions add rigor to the planning and decision-making process and need not be the exclusive domain of business leaders.

There are plenty of other contributions HR can make to this area. Is there true cascading of goals from the C-Level down to the most entry-level player? Do employees understand enough about the strategy that they can generally describe it to customers, potential customers, co-workers and potential co-workers? Are they inspired by it and feel equipped to do their part in implementing it? If not, why not? And how might the company address that?

A culture of execution requires clarity and alignment of goals, and accountability for achieving those goals. Accountability is created when everyone shares a common view and urgency about where the organization is going, and is comfortable challenging and supporting each other to get there. Creating accountability also requires concrete consequences for achieving or missing those goals. Is there a performance management process in place that creates such goal clarity and alignment, and drives collective and individual accountability? Does the organization have a compensation (and other rewards) process and HR policies that create the consequences needed for ensuring that accountability?

Are employees engaging their customers the way they need to be if the company is to truly differentiate itself in the marketplace? If not, why not? Do they lack the needed skills? Are they not interested? Do they not know the parameters or rules of engagement? Are there other reasons? These are just a few of the examples that HR could be focusing on to better equip the organization to execute its strategy.

What about key capabilities like innovation? In essence, a key capability is the collective result of individuals having and applying various competencies or skills. Innovation comes from people. A culture of innovation is created when significant portions of an organization's people are expected to, shown how to, and motivated to think creatively about each and every aspect of their role. Building that culture is a task tailored-made for HR. One need only look at such companies as Whirlpool, GE, Shell and others to see the roles HR can play in driving innovation.

## Opportunity 2 – Operational Efficiency

**The Business Lens:** Business leaders are always hungry for additional ways to simplify and take costs out of their operations. They are taking a critical look at what processes are part of the core business, add value to the customer, and would produce above average return on any related investment. Are there non-core or non-value-add processes or functions that could be eliminated or performed better and more cheaply in an outsourced or offshore arrangement? Can they gain economies or efficiencies by centralizing certain parts of the business? Where are the dis-connects and speed bumps in their internal processes? Are they victims of their own silos? Does it take too long to share key information, make decisions and allocate resources? Are they uninformed about or too far removed from what's really happening on the front lines or in the trenches with their customers? Do they have too many layers? Are customer, product and market issues and opportunities getting to the right people quickly enough – or are they being slowed down or diluted as they pass through the hierarchy of filters?

While business leaders need to aggressively manage costs, at the same time, they need to aggressively invest in certain areas. For example, many companies severely cut or eliminate their marketing efforts in times like these, while others actually accelerate their marketing focus to be better positioned for the rebound. The same trade-off exists in other areas such as R&D, technology and customer relationship building. Some companies view spending in these areas as luxuries – others view them as windows of competitive opportunity.

**The HR Lens:** All of these business issues will inevitably translate into certain organizational changes including (but not limited to) restructurings, consolidated functions and roles, eliminated or expanded roles, new reporting relationships and new performance expectations. At a minimum, HR needs to be anticipating the typical implications of these changes. Job descriptions (including appropriate FLSA implications) and org charts will need updated. Beyond the compliance issues, however, decisions will need to be made and criteria and guidance provided on conducting performance reviews for people who change roles, departments or managers during the performance year? The same goes for any applicable compensation decisions that must be made given these interim changes in reporting relationships.

Ideally, however, this is an opportunity for HR to truly lead in a value-add way. In many organizations, it is the HR team that helps business leaders identify the silos, bottlenecks and filtering that slows down responsiveness to customers and markets. HR can help business teams identify the non-value add work so they can spend more time on core processes and functions. HR can provide guidance on current and desired span-of-control ratios to help business units streamline the complexity and layers in the organization.

HR can lead the charge on redefining what “career growth” means. Economic times like these are great times to get people to invest in their own growth by learning new areas of responsibility, taking on broader assignments and growing laterally. This is especially important because the entire organization is being asked to do more with less. For the employee, lateral skill growth increases their value to the organization, enhances their job security and may well be their only avenue of growth as organizations have fewer layers and promotional opportunities in the future.

Closely related to this effort is training. While the temptation is there to cut all or all but only the most critical training, HR could lead a more surgical and growth-oriented view towards training investment decisions. For example, Home Depot made the decision to spend \$180 million to increase the number and quality of associates in their stores. The senior leadership team had to find their own ways to cut other costs in order to finance this people investment. In another company, Toyota views these tough times – when sales and manufacturing is significantly down even for them – as times to invest in the deepening and broadening of their employees' skills. Their view is that their better employees will stay and be far better prepared for the recovery than those of their competitors. Not every company can be a Home Depot or Toyota, but every HR leader can surely be asking the right questions and providing the needed business case to show why training and similar investments (or cuts) need to be thoughtfully managed to ensure the return and competitive advantage is there.

### **Opportunity 3 – Segmentation and Differentiation**

**The Business Lens:** Most business leaders have most likely spent considerable mind share over these past 18 months thinking critically about the company's customers, markets and the impact they have had and will likely have on revenues and costs. Are customers leaving and if so – are they the right ones to leave and are they leaving for the right reasons? For example, it's generally okay to lose a "high-maintenance," marginally-profitable (or non-profitable) customer account which goes to a competitor to get cheaper prices. That means the competitor is probably making less and spending more to satisfy that customer.

Conversely, losing a profitable customer account for service or quality related reasons is the worst of all worlds. Not only do you lose the revenue and high margin, but the cost of replacing that business, the negative views that customer might share with others in the marketplace, and the leverage the new supplier gets by talking about their latest "steal" from you, can multiply your total loss by 2 – 3 times the amount of the lost revenue.

Because of these factors, customer segmentation is a business imperative. And it's even more important now when the return on every sales and marketing dollar needs to be maximized. Companies cannot afford to be spending time and money on the wrong customer accounts. So business leaders are paying more attention to segmenting their customer markets, and targeting their approach and spend accordingly. Which customers buy which products and services from you? Do they always insist on discounted pricing, pay your list price or are they willing to pay premium prices if the extra value is there? Are you one of their various suppliers or are you their primary supplier? Who else do they buy from and why? Is it because of price, convenience, loyalty or some other factor? What is the longer term potential for each customer in terms of buying additional products, higher end products, higher volumes of the same product, etc?

As can be seen from above, there are numerous different types of customers each one having different needs, buying habits, preferences and motivators. And each one of them requires a different approach if you want to get, keep and grow your business with that customer. The first question to be answered though is – which types of customers do you most want to get and keep? Then for those segments, you need to identify the unique value proposition you can offer that will make that customer choose you over other suppliers or providers. Not only does the value proposition have to be compelling to the customer or prospective customer, but you must be able to create and deliver that value in a way that can't be easily replicated by competitors. This means business leaders need to

think about not only how their customers differ (segmentation), but what their customers want (value), and how the company can make its offering more valuable than the competition's offering (differentiation).

**The HR Lens:** There is a direct parallel for segmentation and differentiation when it comes to employees and the role of HR. One of the things we saw more of this year was a more surgical approach to reducing headcount. In prior downturns, companies that had to reduce their headcount typically cut the most junior people or people in functions that were being eliminated. This time around, we saw more companies using performance and skills as part of their criteria in an attempt to hold on to the more talented and versatile employees. While these decisions clearly have risk, it is a vital balance companies must make if they are to succeed. And HR is in an ideal position to help strike that balance. That may mean not making the most easily defensible decisions or not making the most convenient decisions – but making the *best* decisions – period.

Other articles have already dealt with the value of and need for segmenting employees, so we won't repeat that here. But at a minimum, HR should provide the guidance and leadership to review the company's talent and identify those who are the top performers, high-potentials, key or pivotal talents, performance problems and so on. Then a specific plan must be developed and implemented to assess and effectively manage the risks related to each segment. Do we have HIPO's blocked by under-performing managers? Are their development plans actually being implemented? Do we have ready successors for key positions? Are they at risk? Are we moving top talent into our high-growth potential markets or businesses? Are we taking too long to address or shed problem performers? All of these are key issues around which HR can lead the analysis, decision making and resultant actions.

Another area that plan should address is the value proposition the company wants to deliver to its employees. What can employees expect from working here in terms of their growth, challenge and earnings potential? What is it that you offer them that will make them want to work for you instead of working for some other employer? What would make them want to stay? And does it differ for different employee segments? It's just like the customer value proposition discussed earlier – but this one applies internally.

In addition to describing what the company can do for the employee, HR can help create or clarify, communicate and implement the message around what the company expects in return. We continue to see companies tolerate a sense of entitlement, mediocrity and general malaise from employees even at a time of record unemployment, bankruptcies and business consolidations. There has never been a better time to redefine what it takes to be part of your future organization and recalibrate your employees against that new, higher standard. Companies can ill afford to have marginal or disruptive employees on board when every dollar spent must be optimized. Identifying and weeding out the problems must be an on-going process so there is always room to bring on and promote the stronger performers. And HR can certainly lead that charge.

## Opportunity 4 – Culture and Change Management

**The Business Lens:** Due to years of psycho-babble, buzz words and concepts du jour, when you say the words culture and change management to most CEO's – their eyes glaze over. But forget about the labels or terminology for a moment. What CEO's clearly want – regardless of what you call it – is:

- An organization that can quickly adapt to changes in the economy or customer markets.
- Leaders who make good decisions in the face of ambiguity, optimize the return on every dollar spent, and continually upgrade the organization's talent and capabilities.
- A workforce that thinks like owners, connects to the company's goals on a personal level and is driven to execute.
- Everyone in every function at every level thinking about ways to beat the competition, better serve the customer, make more money and lower the company's costs.

Whether those challenges are best described as change, culture, mindset, behaviors, competencies or whatever – who cares?! We all know what it means and why it's important.

**The HR Lens:** HR leaders can be pushing a parallel agenda of agility, change and excellence. For example, HR can build, communicate and implement an on-going talent management process that continually identifies and evaluates opportunities to move talent into and out of the organization. In this process, the organization is always recruiting and looking for people who can bring additional or new strengths to the company. In effect – it's a continuous, year-round process of upgrading and recruiting talent. Instead of waiting for a vacancy to develop before we can hire – we create the vacancy so we can hire top talent when we see it.

Another key part of building a high-performance culture is a company's compensation practices. Instead of totally freezing salaries which so many companies have done, HR can help the company think of ways to still spend but do so more wisely. For example, one company we worked with had given over 95% of its employees some type of merit increase over the past three years. And with merit budgets that ranged 2.5 – 3.5% for this company – the money just didn't go very far when allocated to that many employees. This past year they still gave out merit increases and they only spent 2%. The real difference was that less than 50% of their employees got any kind of increase this time around. But, those individual awards were much larger than they had been in previous years.

This company is clearly becoming a pay-for-performance organization due to HR's leadership. Was it a significant change for employees and managers to make? Yes. Did it take some intense communication and education to set expectations and train managers on the required decision making? Yes. Are their financial results and employee morale improving now? Yes. These are the types of tough decisions and practices that HR can bring to the table and help drive meaningful business outcomes.

And what about the connection your employees have to the company's mission, vision or strategy? Do they get it? Care about it? Know what to do about it? Those are the kinds of questions or issues HR can evaluate with an employee engagement survey.

Employee engagement is a much more meaningful measure than employee satisfaction when it comes to a company's financial performance. There is plenty of economic proof of that already out there.

Considering that the average company has 60-80% of its operating expenses tied up in people costs – anything HR can do to make those people more productive – goes straight to the bottom line.

## Conclusion

We started this article by talking about HR's challenge to be more connected to the business, connect the internal to the external world and create the intangibles that drive business value. We suggested that there were two different lenses through which to view this current economic downturn and the implications and opportunities it presented for HR to meet that challenge.

We hope you now see that the two lenses actually focus on the same things. Business leaders want and need that which HR leaders are uniquely positioned to provide:

- A rigorous planning process and resultant strategy, with an organization that's aligned to, able to and accountable for executing that strategy.
- An organization that is structured top to bottom and end to end for efficiency, agility and creating customer value.
- A rigorous and progressive approach to segmenting and leveraging the various sources of talent needed to execute.
- The HR guidance and tools needed to drive and enable the attraction, development, engagement and retention of that talent.

We may never see a better opportunity to introduce, drive and be valued for HR contributions that clearly and directly have an impact on the business. Business leaders are seizing the opportunity provided by this recession to redefine "business as usual." There's no reason HR leaders can't do the same. The key is to understand the direct connection between those two worlds, build our vocabulary and plans around that connection, and push forward with a truly business-driven HR agenda.

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**About the company:** *Centric Performance works with small to medium sized public, private and non-profit organizations to help them achieve their operating goals and growth plans. We do this by identifying, evaluating and improving their efforts and results in four areas proven to create stakeholder value:*

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