

The Scary “R” Word

An Employer’s Viewpoint

The signs of a weakening economy grow stronger every day. We are hearing more of the scary “R” word—recession. Inevitably, the resulting reduced sales will lead to reduced staff. In theory, during difficult economic periods, downsizing makes sense. Yet, the reality is that downsizing can substantially weaken companies in terms of valuable staffing, employee morale and future growth.

Downsizing Weakens Company

On the surface, the most logical approach to cost cutting is to trim personnel, there by reducing payroll. Ideally, employee cutbacks would give a company the opportunity to get rid of “slugs” or the non-producers. However, a variety of factors, including government regulations, seriously affects these important decisions. In fact, not all of the “slugs” can be let go. Thus, the real performers are under more pressure and are less productive with the reduced staffing. Consequently, during any major cutbacks, a company will experience the “escape” syndrome as top performers leave because of job uncertainties and plunging morale.

What’s the impact on the company? Mediocre people are retained and given additional responsibilities that they cannot effectively handle. Frustration among top performers will continue to fester. The tendency for them is to look for new opportunities, more than likely at competitors.

Rehiring too Slow

As the company’s financial picture improves, new talent could repair the mistakes made during downsizing. The challenge now is to go forward with a hiring program and blend well-qualified, talented new hires with the present staff. Unfortunately, most existing hiring practices do not respond well to the changing market conditions. After a downsizing, the tendency is to wait to the last possible moment to hire new people. If other companies are now hiring, the available talent pool shrinks, and the hiring process becomes long and drawn-out. Ultimately, the result is to hire someone for an essential position with less than the desired talent. Worse yet, it keeps the company on a permanent downsizing cycle when a sluggish economy reappears. Talent is further diluted with each cycle.

Eagles Leave First

My experience as a headhunter gave me the advantage of seeing an economic change six months before it became apparent to the general public. What I found ironic is how different levels of talent react to a company's difficulty. Invariably the "eagles" leave first. The perception is that they want to move on while there are still many options available. Unfortunately, they tend to panic. It doesn't have to be just rumors surrounding layoffs but also mergers, acquisitions, leadership changes, re-alignments, etc can set off a stampede. Therefore, when a company is experiencing any major changes, it is extremely important to keep employees informed. "Not knowing" usually translates into fearing the worse. Sharing extremely bad news can actually aid in the solution. Somehow knowing begets an obligation to stay on and help.

On the other end of the spectrum, the "slugs" will bring a lunch to work when a company is putting a lock on the front door. "Maintainers" are a mixed bag—some will leave with the eagles; others will wait it out.

Business Basic is the Start

The challenge for any company is to have a plan in place to minimize the long-term affects of an economic slowdown. As hard as it is to believe, it starts with the number one business basic—people are a company's best asset. The quality of the existing employees is a reflection of previous hiring success. A company must focus on the "retain" side of the equation. However, a depressed economy also presents the opportunity to improve the "obtain" side.

Now is the time to institute "retaining" programs. Eagles love "real" performance based programs. (Retention is such a key business element that we will devote a full column to it.) Understood is all this is the need to have open communication. Employees will remain loyal if they understand what is going on. Bad news is superior to no news.

Deselecting Tricky

Obviously, retaining every employee might not be an option. The tricky part is deselecting the right employees. It is relatively easy to develop the bell-shaped curve of talent at a company. (See previous article—Master Breakthrough Hiring—July 21 issue of the IBJ.) The shocking negative value that slugs have on a company, point to the action that should be taken. If referral fees of five or ten thousand dollars are justifiable for a new hire, then why not substantially higher amounts to "deselect" employees who are known to be poor performers?

Gather Talent During Slowdowns

Planning to hire better talent during a recession is like getting the option to buy stocks at the bottom of a cycle. The amount of companies that go into the “not hiring” isolation phase is staggering. We know absolutely that the economy will recover. A company’s work force will grow and shrink but the need for talent will never waver.

At a minimum, a company should be very receptive to gather resumes, applications, or data sheets on viable candidates during an economic slowdown. This is the opportune time to institute attitude and motivation checks as part of the interviewing process. If candidates do not better define their talents when actively seeking employment, then how viable are they?

Prospects will seek companies. How they are treated can pay dividends later. One company has the idiotic policy of returning “unsolicited” resumes with a nasty letter. That message spreads ill will. Consequently, I know one VP who will not buy any of their products. It would have been just as easy to develop this customer or future employee as it was to shun him.

Having an active, structured, an organized hiring program insures the long-term success of a company. “Active” not only means having the mechanisms in place to initiate contact with prospects, but also have the means to take advantage of an economic slowdown. Look at every individual that seeks a position as a potential employee. A large database of talent gives a company the advantage of being able to find employees quickly during a growing economy while the competition is struggling.