

The Carlsen Think Piece

Do You Have Enough Human Capital to Weather a Recession?

*Another in a series of think pieces on the Workplace of the 21st Century, produced and distributed by the staff of Carlsen Resources
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Executive Summary

- **Despite the country's economic uncertainty and the anticipated exodus of hundreds of thousands of Baby Boomers from the workforce, many U.S. companies report they have no contingency plans for recruiting and/or retaining top talent.**
- **Globalization and the emergence of China and India as vital economies may mean protracted slowdowns for many of the traditional economic superpowers, including the U.S.**
- **While many U.S. companies have started to rethink the wisdom of layoffs during economic slowdowns, a majority still operate under a "slash and burn" mindset.**
- **What is different about this current slowdown, in addition to the China/India factor, is that many companies are already relatively lean and find themselves with little excess fat to trim.**
- **Like real estate speculators who greatly increase the value of their portfolios in times of spiraling mortgage rates, falling housing prices, and overall consumer panic, today's most prudent and proactive companies are those that, rather than scaling back on their investment in human capital, are actually ratcheting it up.**

Ronald Reagan once said famously something to the effect that a depression is when you are out of work; a recession is when your neighbor is out of work. Politics, economics and semantics aside, this country may or may not be in a recession, or even headed toward one. But what is unmistakable is this: the U.S. economy is as volatile and uncertain today as at any point in our lifetime.

One big reason, of course is globalization. The centers of economic impact are more plentiful now than at any point in history with burgeoning superpowers China and India joining the traditional centers of influence of Europe, the Pacific Rim and the U.S. The strength of the global economy is, therefore, far less reliant on any one geographic region than ever before. For that reason, any region's relevance in the overall global

economy has been diminished, if only by degree. This means economic downturns in a region, which had always been measured in quarters, or even years, might soon be measured in decades.

Couple such economic uncertainty with an issue we addressed at length in a recent edition of the Carlsen White Paper – namely, the looming talent crisis being triggered by the waves of Baby Boomers leaving the workforce – and you can see why it now behooves companies to take a long hard look at their hiring and retention strategies. Just as during a recession, when it is comforting as an individual to know that you have invested well and have built for yourself a buffer against a protracted downturn in the economy, today's business and HR executives must ask themselves one critical question: ***has my company made a sufficient investment in the right human capital to be able to weather a protracted economic slide?***

Rethinking Layoffs

Workforce Management, an online publication, tells the story of Diana Bell, director of global talent management and executive development at International Paper. Five years ago, when the Memphis, Tennessee-based paper supplier hit an extended lull, they laid off 3,000 employees, or 3.5% of the workforce.

This time Bell and International Paper are taking a longer range view, and according to her they are both better prepared. "We have learned the importance of taking our time in making decisions during an economic down cycle," Bell told Workforce Management.

Perhaps such a change in thinking was born out of wisdom and prudence or perhaps it was born out of necessity. Like so many other companies that have cut first and asked questions later, International Paper found the talent pool considerably smaller and less sophisticated when it came time to re-fill certain critical slots.

And they're not alone. Other companies have found a dramatic decrease in the number of qualified candidates, particularly at the highest levels of management. And that's only half the problem. As Jeffrey Pfeffer, a business professor at Stanford, explained, tepid job growth during the last economic expansion dictated that most companies have far less fat to trim this time around. "Companies have gone into this leaner," he told the publication.

It would seem to be incongruous that during a recession, with so many out of work, there could be a talent shortage. But as Ron Torch of the Torch Group explains: "We are in an economic slowdown. When this happens, employees (even the best), tend to stay with their present employer, even if it is just for the sake of safety. Then we have all these Baby Boomers. We have been saying they will retire, and now they are retiring in droves."

Torch also quantifies the shortage. Using data from the Human Capital Institute, he projects that the American worker shortage will reach ten (10) million by 2010.

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What is frightening about this fact, beyond the raw numbers, is the fact that many U.S. companies continue to view the looming recession in traditional ways. Many Asian companies, on the other hand, have used the economic uncertainty as an opportunity to rethink many aspects of how they do business. According to Watson Wyatt, a consultancy firm, 84% of employers in Asia said they had contingency personnel plans in place, compared to only 67% of U.S. companies. And of those Asian companies that had a plan, a vast majority said it centered on hiring freezes and restructuring their business, whereas the majority of American employers said, despite the dwindling pool of talent, their plan would focus on job cuts and layoffs.

History as Teacher

In previous market downturns, employee morale was hardly a consideration for many companies, believing that their employees had no other options and that most would be happy to just have a job. But as Brian Wilkerson of Watson Wyatt told Workforce Management, “(After the market recovered) the ones who left those companies were the high performers, because they remembered how the company treated them.”

Wilkerson added that today, with the cost of rehiring and training as much as 200% of the original employee’s annual salary and with the dwindling pool of top talent upping the ante for prospective employers, the best companies are trying to prevent such an exodus from recurring.

Best Practices

As some companies continue to slash and burn as a way of belt-tightening, many have taken the contrarian view and invested even more heavily in their human capital.

Trane, the heating and air conditioning giant, hasn’t cut training during the current slowdown. Rather, they’ve changed the focus of their development to the extent that salespeople are now being trained to sell not just Trane’s durable goods, but services and products across the company’s numerous business lines.

Wachovia, despite the sub-prime fallout that crippled many competitors, not to mention its own retail mortgage unit, has used layoffs in its industry to go on a shopping spree, hiring hundreds of exceptionally talented mortgage professionals who were shown the door when their old companies scaled back.

The Container Store recently rolled out a strategy of honest communications. The company told its part-time employees – who comprise about 2/3 of its workforce – well in advance that next year their February hours would be pared back even more than usual. The thinking is that such honesty gives workers greater clarity about their job security and sheds light on an often shadowy issue.

But perhaps the most dominant trend we're seeing is companies large and small are hiring highly skilled professionals to help them retain their top talent.

Many have greatly expanded their recruitment departments, or launched them altogether. Others have paid a premium to retain the services of such specialty firms as Talent Keepers. Others still have begun to train their managers on improving their "emotional intelligence" or have instituted broad-reaching anti-poaching initiatives.

Even those companies who have chosen to move slowly have started to alter, however subtly, their approach to high-end talent. Some, for example, have begun hiring high-level corporate decision makers on a temporary basis to work on specific limited projects.

Then there's Citigroup, whose slash and burn history includes laying off 17,000 workers as recently as 2007. Citigroup's about face on human capital has reached the point that the company recently hired its first head of "talent management," who according to an internal memo is "responsible for recruiting, developing, reviewing and retaining Citi's senior talent."

As one of Citi's observers told Workforce Management, the hiring of such a professional means that even those companies hit hardest by the economic downturn are revisiting the importance of retaining high performers. Watson Wyatt's Wilkerson concurred, saying "This has become a business management topic within organizations. It's no longer just an HR issue."

As in past Carlsen Think Pieces, the purpose of this report is not so much to provide definitive answers to yet another complex workplace issue. CRI's purpose is to frame the debate for our readers and to spur those colleagues who have not yet established a policy for recruiting and training top talent to do so. With the high-performer talent shortage increasing exponentially each year, and a national economy likely to experience downward pressure for at least another 12 months, if not longer, whatever chance any company might still have to act proactively is quickly drawing to a close. Don't be caught unprepared!

Questions? Comments? We would love to hear your thoughts on this and any other workplace issues impacting the Workplace of the 21st Century. Please direct your comments to Ann Carlsen at acarlson@carlsenresources.com.