Abonar Newsletter

Strategic Human Resource Management

Managing for Survival and Success in Tough Times

Times are tough. News agencies are reporting bad news, layoffs, pleas for bailouts and other misery. Managers are looking to slash costs and shrink budgets. This is done to survive until good times return. What many managers don't realize is changes done for short-term survival have negative long-term effects on their businesses. This newsletter shows the problems of budget cutting and how to turn this situation to your long-term advantage.

Typical Responses to Tough Economic Times

The typical playbook to react to economic downturns looks like:

No discretionary spending – A directive comes out forbidding any spending that doesn't have a bottom line, immediate payoff.

No travel – This is the favourite tactic of large organizations. This assumes that business can be carried out without visiting customers and suppliers and going out and learning how to improve the business.

Hiring freezes – This policy is to protect cash flow. Employees will work to cover vacancies to save the cost of a salary.

Temporary layoffs – Again, this is to conserve cash flow. The key bet is that employees will wait to be called back when times improve.

Slashing R&D budgets – Here the thinking is there is enough research and development to keep the company moving forward. This is usually the move of managers that are unaware of the value of R&D. They also assume that they can restart R&D when times improve.

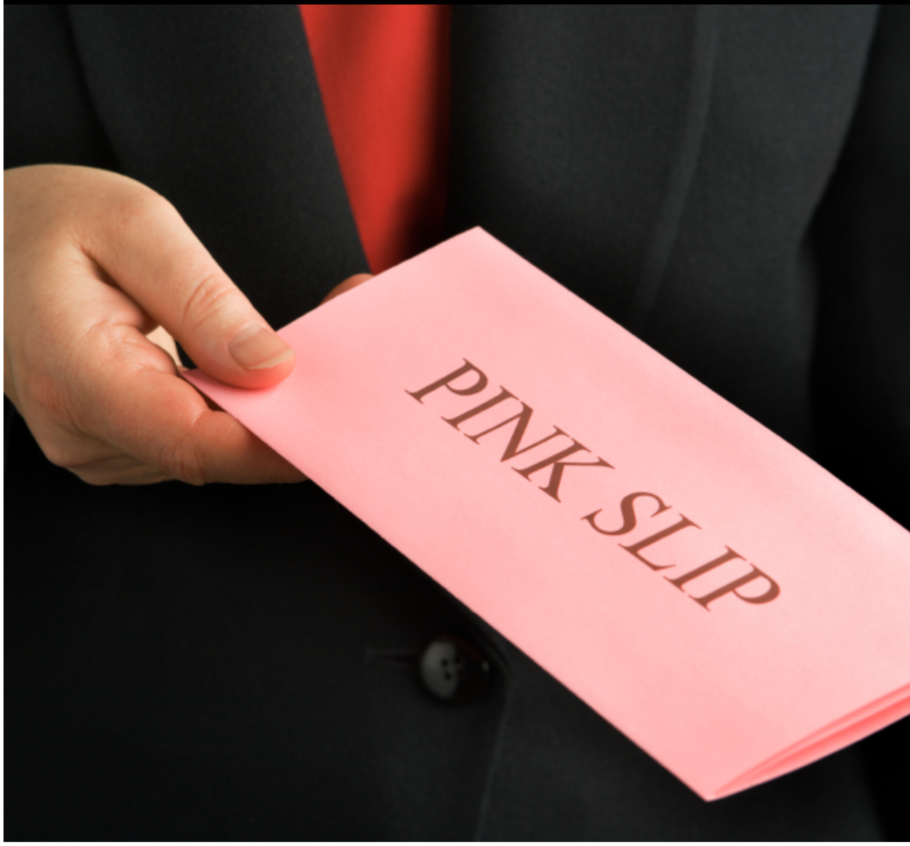
Postponing and canceling initiatives – Cash flow is king in this move. Essentially the company is saying that the initiative is worth less than the money it costs to implement it. This is in direct contrast to what the thinking was to get the initiative going in the first place.

Squeezing suppliers for better prices and terms – This involves using the influence you have over your suppliers and their (likely) own desperation to sell to get better price and terms for their business. This is what purchasing managers tend to do in tough times. They can show their impact on their bottom line by the changes in purchasing agreements.

The result of this for the company is to be able to survive downturns by conserving cash. While these tactics can help a company meet payroll and obligations in the short term, they can seriously weaken the company and diminish its ability to prosper in the future.

Long-Term Implications

In tough times, cost cutting has two main goals. The first is to survive and the second is to send a message to employees. The message is times are tough and everybody needs to feel the pain. While these tactics can be effective, the bigger goal of long-term success is often



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compromised. This is how the long-term goals are compromised.

No discretionary spending – This implies that there is a lot of unnecessary spending normally. To employees, it means that the company is getting cheap and is grasping at straws. Is it a sign of leadership to cut the coffee budget in the face of economic strife?

No travel – Again, the implication here is travel is an unnecessary luxury and is seen as a perk to employees. This is another attack to the self-image of employees. Just as serious is what customers and suppliers are thinking about in these times. They are looking at who to buy from and sell to. Having a lack of attention from the company will tend to get them to forget about you.

Hiring freezes and temporary layoffs – The classic motto in investing is "Buy low, sell high." When hiring in good times and laying off in bad times, companies are buying high and selling low. When economies are booming, companies go into frenzies sparing no expense to hire people. This means that companies will pay top dollar for whatever talent is available. In economic downturns, a surplus of great talent becomes available at a lower price. When companies post openings, they have many more talented candidates to choose from. This can have a profound effect on the future prospects of the company. Temporary layoffs will have the opposite effect. Typically, your best employees are the most valuable to other companies. The more layoffs you do, the more chances you give them to work for somebody else, like your competition. The average performance of your work force will worsen as a result.

Slashing R&D budgets and canceling initiatives – There are two implications of slashing research and development. The first is the current offering of products and services is good enough for now and the future. This is a dangerous assumption and invites the competition to take market share. The second is the message to R&D staff is they are dispensable and are not valued. This will encourage the more ambitious employees to look for greener pastures.

Squeezing suppliers for better prices and terms – While this is expedient, it can have dire consequences. Suppliers look at their customers and apply efforts to those that have the most value for them. When a company squeezes the supplier, the value of the account to the supplier goes down as well. This means that these suppliers will put their efforts towards your competition's success.

Long-term outlook

So how can a company make necessary changes to survive tough times while preserving its future prospects? We at Abonar recommend a long-term approach. The underlying premise is that any successful business will operate through both good and bad times. During the bad times, some unique opportunities arise. Here are some approaches to capitalize on this situation.

Marketing – Your customers are likely going through the same issues that

you are. They are reducing purchases to try to remain solvent. That doesn't mean that they have to reduce purchases from you. Your efforts should be to make sure that the suppliers that they cut are your competition. Make offerings to take their pain away. This could open the door for new product and service offerings. The most important wisdom for marketing is what do your customers value and what you can do better than your competition. Any changes in operation must preserve this. Any areas where you can buy a product or service more economically than producing it is a good place to start in cuts.

Human Resources – This is the best time to hire for the reason that there is low competition for the best available talent. This is the definition of "buying low." In addition, any layoffs should be analyzed for the long term. If there is a segment of your business that has low future potential, a layoff may be appropriate. If the business has excellent future growth prospects, you are gambling with these products by getting your employees used to life without you. Finally, use your human resource to redesign your value proposition. When times are good it takes everybody's energy to keep up with orders. Slowdowns are an excellent time to get people together to determine what customers value. New offerings come out of analysis of what customers need in good times and bad. Again, preserve the value proposition you provide to your customers. Involving your employees in solving problems is a great way to improve morale. They are worried about their jobs and are motivated to make a difference. They are also more open to change than in good times. Our experience is employees always deliver when asked to improve the business. New, unexpected innovations invariably come your way.

Pick your suppliers – When orders slow down, companies can pick suppliers that add to their bottom line. This means that you can buy from suppliers that are bringing value to your organization. This is a better mission for your purchasing managers, because it contributes to long-term success.

Manage cash flow – One way to free up cash flow is to reduce inventories. This frees up cash while not sacrificing long term growth. The extra time you have available can track shipments and come up with more efficient supply channels. In addition, lenders and investors look for opportunities with future growth potential. By being your customer's preferred supplier and retaining and recruiting top talent, you can demonstrate that your firm is poised to grow when conditions improve.

In conclusion, tough times call for difficult decisions. The decisions you make to address short-term issues can have profound long-term effects. Let your competition hobble themselves through short-focused cost cutting. Instead, make the moves that will allow your company to flourish when good times return.

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We offer innovative and customized solutions to enhance organizational and business performance. We work together with our clients to turn ideas into successful business practices.

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