

# HR as Business Partner in Economic Crisis.

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## Agenda

- The crisis is definitely a reality. What's happening in the world?
- Some consequences of the crisis
- The HR gap
- The wrong behavior
- First priority; understand and apply your business strategic positioning
- Need for a scenario planning
- Priorities for the HR team

## What's happening currently in the world?

- Nearly 5 million American receive unemployment aid, the highest on record since 1967
- German business confidence hits 26-year low
- Most companies not revisiting 2009 executive compensation
- Six in ten employees steal company data before leaving their job
- More laid-off U.S workers filing suit against their former employers
- Reward and Recognition from Managers increasingly important to employees
- Employees in Asia increasingly less satisfied with their co-workers
- Many Japanese companies turning to work-sharing arrangement to avoid layoffs

## Some consequences of crisis on which you need to be aware (1)

- Employee disengagement is accelerating

*“Employee disengagement is accelerating as macroeconomic growth is declining and layoffs are rising. In the first half of 2007, just 1 in 10 employees surveyed were considered to be highly disengaged, or poor performing employees who frequently put minimal effort into their job. In the second half of 2008, one in five employees were considered highly disengaged. The increase in the number of highly disengaged employees places substantial stress on organizations’ performance management systems, as unprepared managers are the first line in reducing employees’ disengagement. During the same time period, the number of highly engaged has stayed relatively constant” – Source CLC study*

- Therefore, how do you want to pass with success the crisis if your organizational capability is worsening?

## Some consequences of crisis on which you need to be aware (2)

- The disengaged are staying

“While performance is suffering across the organization, the highly disengaged are not turning over at the same rate as in the past. In 2006, 46% of highly disengaged employees “strongly agreed” that they were actively seeking a job. In 2008, that number had fallen to 35%.– Source CLC study

- One in four HIPO’s plans on quitting

“While most employees are less likely to leave the organization because of fewer labor market opportunities, High Potentials are actually 10% more likely to leave than the general employee population—and they currently put in 21% more effort than other employees. This leaves organizations at risk of losing some of their most productive employees”- Source CLC study

## Some consequences of crisis on which you need to be aware (3)

### ■ Senior leaders effort has dropped

*“Senior leaders have historically been the organization’s most engaged employees. However, senior leaders’ discretionary effort has dropped by more than half since the second half of 2006. Although they are maintaining their commitment to the organization at a relatively high level, they are not putting in the same amount of effort, even as leadership becomes more important” Source CLC study*

### ■ Performance is largely the focus for today

*“Labor market rigidity means that rank-and-file employees are unlikely to leave the organization for new opportunities, with only 12% of employees overall actively looking for a job in Q4 of 2008. The implication is that organizations should focus on improving performance in the short run. Organizations that can move employee effort levels can realize up to 20% improvement in employee performance. Organizations, however, should resist the temptation to let their employment brand slide given that many employees are unable to leave—under a market rebound, these employees may be retention risks.”- Source CLC study*



# CEO View: HR Function Lacks Strategic Impact, and Underperforms



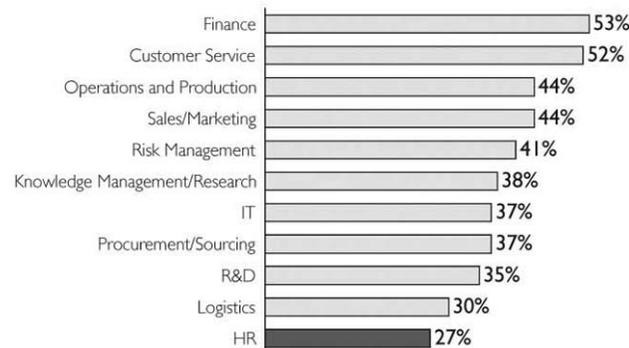
## Fewer than one in six CEOs assigns strategic importance to HR...

Percentage of CEOs Rating Business Function as Top Three in Importance to Realizing Company Strategy Over the Next Three Years



## ...and only one in four rates HR's performance favorably

Percentage of CEOs Rating Performance in Business Function as "Excellent" or "Good"



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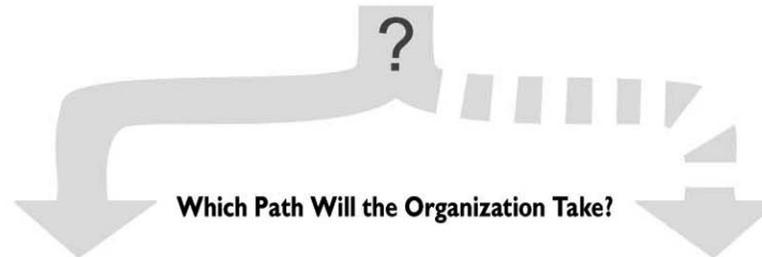
Source: CEO Briefing: Corporate Priorities for 2006 and Beyond, Economist Intelligence Unit, 2006 Survey of 555 executives in 68 countries; Corporate Leadership Council research.



# HR at a Crossroads

*HR functions must determine whether they are on the path towards high performance or low impact*

Potential End States for HR Staff and Function Effectiveness



## The High-Performing, Strategy-Setting HR Function

1. **HR Leads:** The HR function has taken a leadership position in the organization by prioritizing the roles where it participates in setting business strategy and direction.
2. **Highly Skilled Staff:** HR staff are highly skilled and effective in their mission-critical roles:
  - The organization has focused its resources on building the three critical skills that best support the function's effectiveness—applying business analytics, applying performance and development expertise, and leading people.
  - The function takes full advantage of a diverse portfolio of high-impact skill-building methods, providing HR staff with the critical business exposure and cross-function experiences needed to develop critical skills.
3. **HR Measures Impact:** The performance of the HR function is measured by its leadership of the organization and contribution to business results.
4. **A Virtuous Circle:** HR is a high-performing organization that serves as a magnet for top talent in the organization, thus continuing to build staff proficiency in critical skills.

## The Low-Impact, Low-Performance Administrative HR Function

1. **HR Follows:** The HR function has taken a supporting position in the organization by prioritizing the roles where it aligns to a business strategy and direction that others have set.
2. **Underskilled Staff:** HR staff lack the critical skills needed to make a business contribution:
  - The organization has failed to focus on building critical skills.
  - The function is ineffective in the high-impact skill-building methods.
3. **HR Measures Input:** The HR function is measured by its activities and processes, few of which create meaningful impact on business results.
4. **A Vicious Cycle:** HR is an organization where careers stagnate, thereby deterring top talent and further depressing skill levels in the function.

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Source: Corporate Leadership Council research.

## The wrong behavior

STRATEGY- WHERE TO PLAY?/HOW TO WIN?

BEFORE CRISIS

WITHIN CRISIS

AFTER CRISIS

## The wrong behavior

STRATEGY- WHERE TO PLAY?/HOW TO WIN?

The heaven on earth

### BEFORE CRISIS

- Headcount increase (very easy to approve)
- Generous pay raise for everybody
- Lavishing employees with a large number of benefits
- Recruitment highly dependent on external agencies
- High training investments in personal development, soft skills, team-building etc
- Hard to be fired for pure performance issues
- Concern for labor turnover

## The wrong behavior

STRATEGY- WHERE TO PLAY?/HOW TO WIN?

The era of employees power is suspended

### WITHIN CRISIS

Headcount freeze or/and layoffs

Freeze pay increase/only for trade unions units/only for HIPO

Cut a significant number of benefits ( sometime even annual party)

Reduce significantly the recruitment budget,  
start to think at alternatives channels

Severe cuts in training budget, focus suddenly on the “serious” training

Hunt the underperformers!

Labor turnover might be a good thing, isn't it?

## The wrong behavior

STRATEGY- WHERE TO PLAY?/HOW TO WIN?

Did we learn something?

### AFTER CRISIS

Hire again? Maybe even the same people laid off previously?

Is time to pay now or what?

Reintroduce the benefits

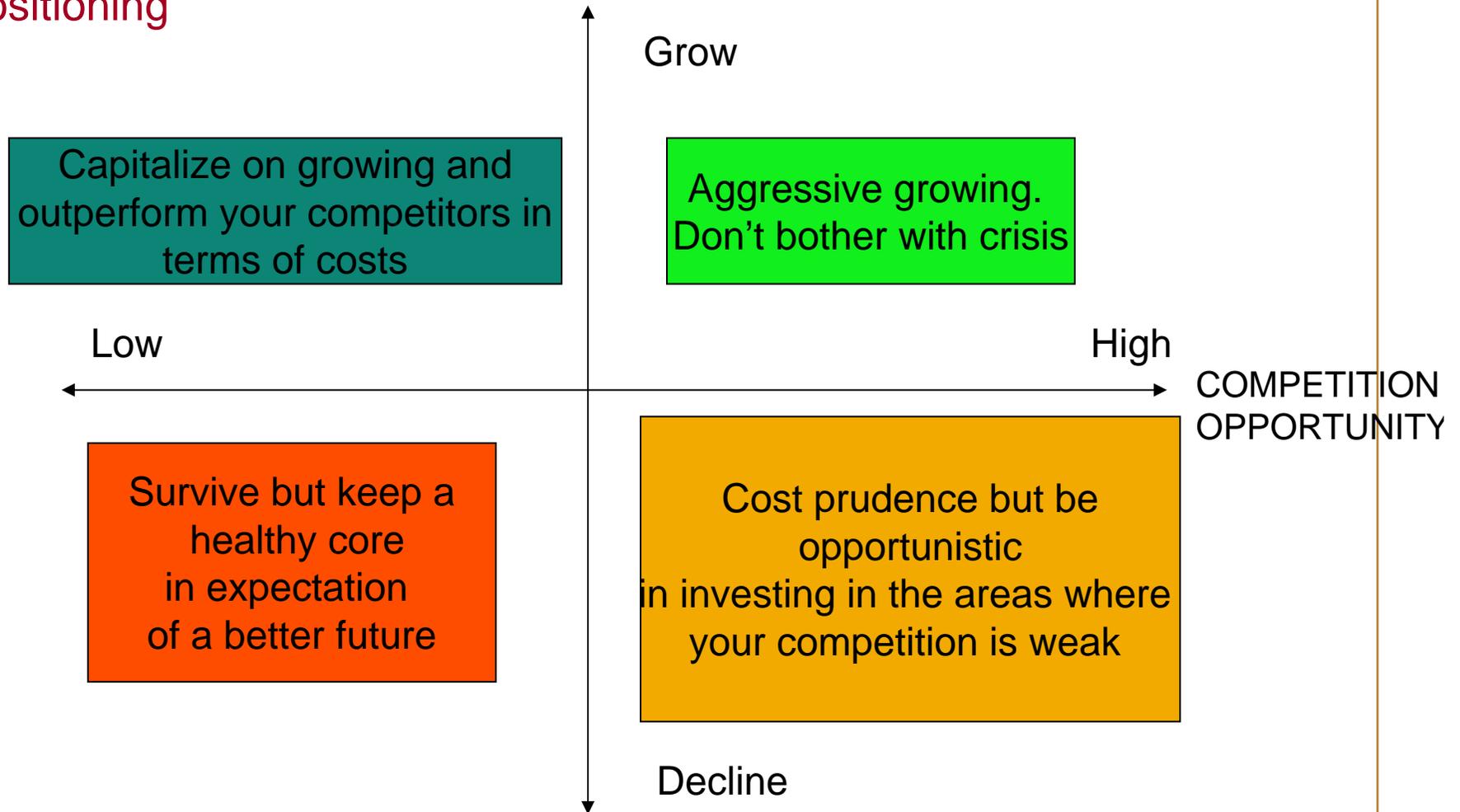
Recruit, recruit, recruit!!!

Now is the time to play again in the mountains!!

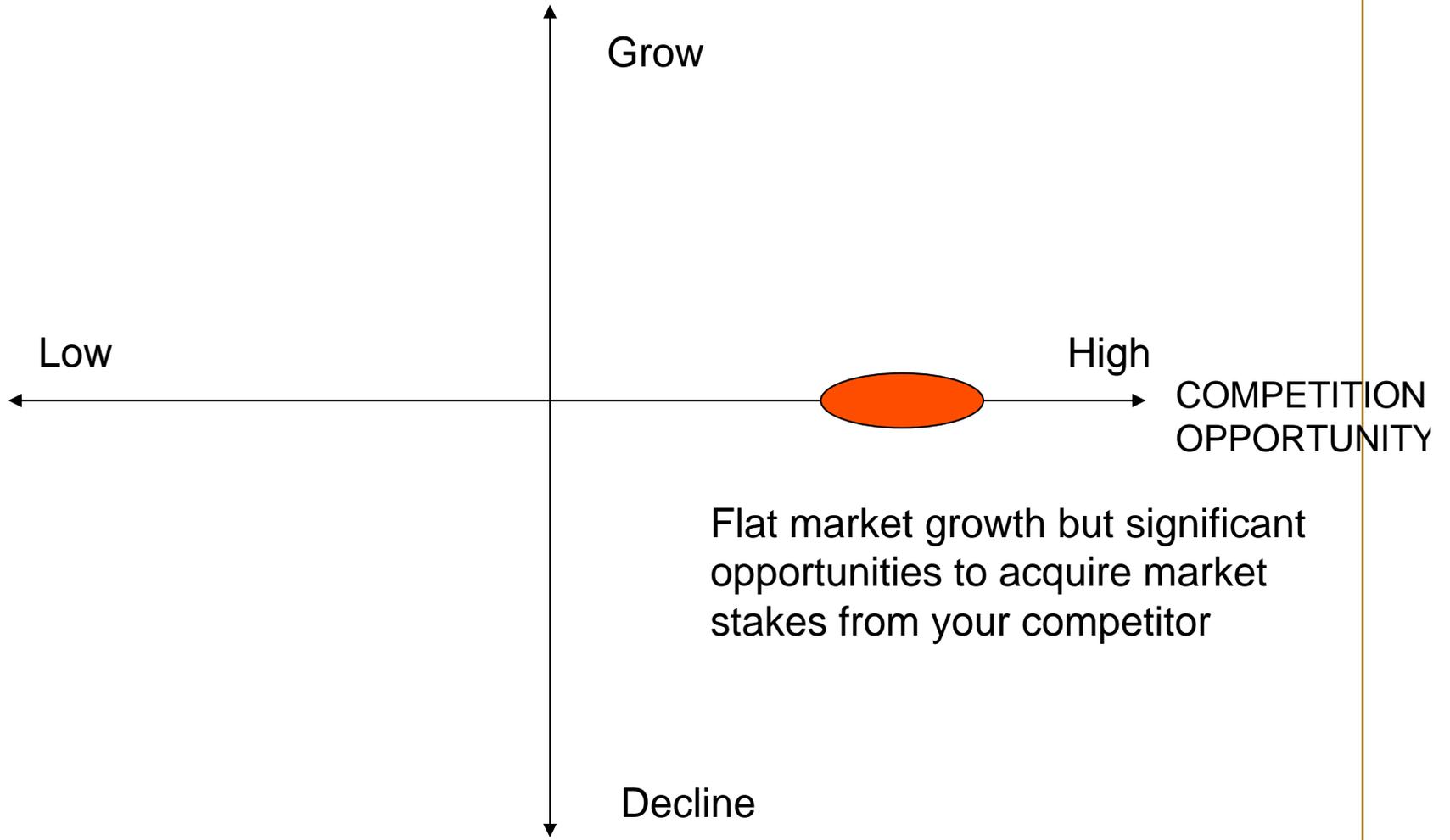
We need to improve the climate, let's be more tolerant

Retention is the name of the game

First priority: Understand and apply your business strategic positioning



Assumption: Let's suppose that you are staying here



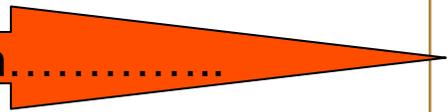
## HR strategy in this assumed positioned

- Headcount increase in the functions correlated with volume generation while prudence in areas which are not essential to your “stealing” strategy
- Power recruitment but try to reduce your dependency on external agencies, build internal recruitment capabilities
- Rationalize the training budget and focus the effort in acquiring or consolidation of competence according with the above strategy
- Keep the overall pay cost positioning at market median, pay attention to attractors in the areas where you need to grow, hence attract from the market talented resources.
- Manage retention with care ( is stupid to loose resources while you are growing)
- Avoid layoffs if possible and other non-rational people cost cutting, you will need all your employees engagement to win in crisis environment.
- If necessary freeze/reduce some payments but not kill your benefit structure if this was build on rational ground
- Communicate open with your organization, being transparent in all your moves

But...in times of uncertainty you cant sleep on one future scenario. This might be a real disaster. You will need a lot of scenario “what if” close approach. C&B consideration as example

Line of constant decline vs last year

March, April, June, July, Sep, Oct, Nov, Dec, Jan, Feb, March.....



Be prudent but not yet taking actions.

Pay less or postpone

Freeze increase.

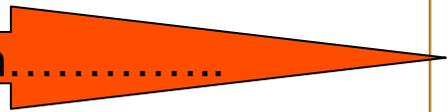
Suspend some benefits pay

Starts discussions with trade unions and organization for fundamental changes

## Headcount approach ( example)

Line of constant decline vs last year

March, April, June, July, Sep, Oct, Nov, Dec, Jan, Feb, March.....



Be prudent but not yet taking actions.

Only critical Recruitment / More temps Reluctant to replace

Freeze additions

Freeze all

Starts discussions with trade unions and organization for fundamental changes

## Priorities for the HR team and other wise advises (1)

- Create scenarios aligned with business strategy reflecting the potential situations where the overall environment is worsening
- Take a progressive approach watching closely the performance of your business and the market dynamic.
- Avoid the two typical traps of the HR; one to be passive and driven by your FD and accept personnel cost cutting which will weaken the organization and second to be seen as an irrational people defender where you need to advise your business on tough actions
- Provide employees with frequent and transparent communication on major strategic changes. Clear communication and a reputation of integrity can increase employees' discretionary effort by 29.2% and 27.6% respectively.

## Priorities for the HR team and other wise advises (2)

- Understand the numbers magnitude, what saving is generating 1% of pay cost cut? Some time the number is so small that is stupid to reduced if you have other alternatives
- Establish a logical positioning in pay cost reduction. A number is empty of meaning. Remember that always the compensation is sending also a message
- Don't remove benefits if this make sense. If the situation is critical you can not pay temporarily but don't alter the company benefit structure
- Watch out the trade unions. Don't expect that you can easy freeze the pay cost increase, especially when you have the pockets full of the good results of 2008

## Priorities for the HR team and other wise advises (3)

- Balance your compensation revision, don't ignore the effect on the upper levels if you decide to grant increases to trade unions. Be particularly careful on the first levels at the border with the bargaining unit
- Is good to keep your HIPO happy and your focus should be on them but don't exaggerate by applying a zero-increase on others and lavishing the HIPO with increases. You might deteriorate significantly the internal climate
- Don't focus primarily on cutting ones-off benefits, this are not generating commitments and might be very usefull to use them
- Don't go on stupid areas to remove the company party or cut the women's gift on 8<sup>th</sup> March. You can reduce the spending but don't destroy your climate

## Priorities for the HR team and other wise advises (4)

- Performance bonuses are good for stimulating the discretionary efforts but don't overestimate their attraction power in the crisis conditions. They are less credible now than before. The same with share-options allocations
- While it is easier now to recruit from the market don't think that the genuine talent is staying unemployed, in fact it will be more costly to dislocate from other companies.
- Treat any vacancy as a business case, even the replacement needs particular attention. If you were paid the same attention in the past maybe today your retrenchment would have been on less impact and pain
- Retrench as much as possible jobs who will not come again in your plans in the next 1-2 years.

## Priorities for the HR team and other wise advises (5)

- Don't confuse the performance dismissals with retrenchments.
- Be consistent in your behavior regarding the lack of performance, don't become authoritative only in time of crisis
- Keep healthy and consistent your employee value proposition, if you engage now in a lot of aggressive actions against your employees motivated by crisis, don't expect to recover your reputation after crisis
- Think at the cost reductions as an outcome, a good training initiative might reduce the business cost, focus on that, not on how to cut with 50% the training budget

### Final advice:

Be a genuine business partner in this time, crisis is the acid test for HR which will put you on the right level or downgrade you as a cost to be addressed.



Thank you

