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Take Advantage of The Recovery!

The current economic turndown (2009) has delivered an almost unprecedented level of unemployment in the US, arguably the highest since the 'Great Depression'. Individuals and companies are being hammered by huge reductions in their income. Many companies have been unable to stay afloat, corporate bankruptcy filings soared by 64% in the first quarter 2009 versus same period 2008 (Admin Office of US Courts). Domestic housing prices have decreased by 17% in the last 12 months (Halifax House Price Index).

However, nothing is forever and there will be a turnaround; economic stability will return. The big unknown is 'when' it will return. Smart companies realize this, and are already taking steps to take advantage of the recovery, when it does come. There are a number of precedent-ial models of strategies that have worked very well for some companies; maybe the most notable being that which Intel implemented during the recession of 1981-83.

The 125% Solution

Intel called its strategy "The 125% Solution"; its idea was to have all exempt employees work two hours longer per day, and at the same time, take a reduction in pay; no layoffs. The objective being to get new product (and support) launches ready for implementation when it was clear that the US economy was in a recovery phase. The expected outcome for Intel was to 'scoop' the market share pool, 'crush' its competition (at that time Motorola) with exciting new products, and attack new markets.

The strategy worked brilliantly for Intel, whose annual revenues more than doubled between 1981 and 1984. Intel also changed the microprocessor performance paradigm by introducing its 80286 microprocessor. Intel's strategy probably set the stage for the acceptance of the Personal Computer (PC) by 'big-business'. Intel might well have established the beginnings of a completely new industry; maybe the most important in history, since the invention of the 'Spinning Jenny' and the industrial revolution.

It would be very difficult for businesses to implement the 125% solution today, but it is a clear example of how companies can benefit by planning, structuring, and getting ready for the economic recovery, when it comes. Most businesses today have trimmed their employee pool significantly; they've probably slowed developing new products, cut marketing, and maybe even cut their sales force.

What Smart Companies Do

When demand returns, revenues will start to increase; profits will get significantly better, as a % of revenues (due to higher operating efficiencies; fewer employees and lowered expenses). The not-so-smart companies will think that raising efficiencies even further is a great strategy. Sorry! Higher efficiency does not translate to a differential advantage, especially when some competitors are introducing new and improved products and entering new markets, and also experiencing improved efficiencies.

The 'smart' companies will have upped their efforts in developing new products and targeting new markets. At the same time, these 'smart' companies need to get the most out of their existing employee base, and select and hire the best candidates from the pools of unemployed workers that are eagerly looking for new employment. How will these companies do this with depleted HR staffs, and with many previously trusted recruiting companies out of business?

Good to Great

Jim Collins (Stanford University; his book Good to Great) studied over 1400 companies trying to discover what it was that made some of them go from being average-to-good performers to becoming great performers. He used stock price as his measure of performance. What he discovered was that it was the employees of these companies that made the difference, the people, and of course an enlightened management.

Collins coined a neat metaphorical description of the process; 'get the right people on the bus, get the wrong people off the bus, get the right people in the right seats, and get the bus moving'. The bus in this case is the metaphor for a company. During this upcoming recovery phase of the economy, companies should not be thinking of going from good to great in one giant step, but in a series of steps.

Even thinking of changing a paradigm (as Intel did) is a 'too big' step, they should have expectations for coaxial growth of new products, and increased market share, along with higher revenues and earnings. And of course the success of these fine plans, is totally dependent on the 'right people' to execute them.

The Right Way

Smart companies will be doing some or all of this at this time (mid 2009). A few of them will do it the right way, and some of them, the not so right way. The right way is to do the following:

1. Set post-recovery Objectives (revenues, share, etc)
2. Develop strategies for achieving these Objectives
3. Develop a Human (and economic) Capital plans that will enable the results
4. Recruit and 'hire' the best people for the jobs highlighted in the plan
5. Organize the workforce; align it with the strategies to be implemented
6. Execute on the strategies

Many companies have fine plans, and fine ideas, but can't execute on them; it is a very common problem. In that case, they should look at who is on the bus, because for sure they have the wrong people on the bus. It might be the managers, it might be the wrong people in the right jobs, but for sure, it is a people thing. The question is how do we do all of these ‘people things’ when HR staff has been decimated and most of the recruiters we used to use are out of business?

Psychometrics
This is where the smart companies will step up to the plate and begin using some of the newly enhanced psychometric techniques that are now available to run on the Internet. These techniques will not completely solve the problems of finding and selecting the best people. But by using combinations of these tools, and their interviewing techniques, employers can get about 75% of the way to making the best new hire choices with a high probability of making the 'right choice'.

These tools can uncover about half of the determinable capabilities of a prospective employee. This is a half that usually goes undiscovered, when just resumes and interviews are the selection method. And then there is the other half which includes previous experience, education, and personality. Criteria an employer can more easily evaluate from a resume and interviews, especially with the help of psychometrically generated interview questions. Research shows that interviews and background checks only gets an employer 26% of the way to making the right choice.

Hiring Practices
People are like icebergs, from the perspective of displaying what they are about, what you don't see about them is more significant than what you do see. Even the prospective employee (in most cases) doesn’t know or understand what makes them tick.

But what makes them tick greatly affects the performance they will display on the job. This is where the power of psychometric tools comes in; they can measure and expose the 'what makes them tick' mechanism.

Why do managers keep hiring people based on personality? Because without a systematic method for determining the true ingredients of performance, they have little choice but to attribute it to some random genetic permutation. Assessment instruments are the best way to accurately predict the performance of candidates.

With that said, hiring managers should be careful to explore the characteristics the assessments actually measure. A combination of at least three assessments should be used to reveal the candidate’s intellect, behavioral style, personal interests, values, and attitudes and motivations.

Getting the Right People on the Bus
Ok before we start getting the right people on the bus, we need to know what 'right' means. Right means that we get the most productive, most motivated people, who are the 'best fit' for the jobs that need to be filled, to achieve the company's objectives. How do we assure that someone we hire is the 'best fit' for the jobs that we need to fill?

This is where the psychometric process begins. Psychometric evaluations should start with a study of incumbents, and job requirement assessments by managers who know the various jobs.

Even a small sample of incumbents along with management input allows further refinement of the 'best fit' job profile. These 'best fit' profiles should be continuously updated as more and better information becomes available.

Based on the 'best fit' knowledge of what is necessary for success in a position, we can build a profile called the Job Match Pattern for each factor of the psychometric assessments. This pattern consists of a range along a scale in which the scores of the most effective performers tend to fall.

The farther outside the range (Job Match Pattern) a score falls, the less likely that individual will be a good fit to the job, in regard to that particular factor.

The Right People

Now back to who are the 'right' people? The right people are those who are necessary to implement of the company's strategies, and meet its Objectives. Research shows 70 - 90% of companies fail to execute on their strategies

The strategically necessary people, like engineering (marketing, etc) managers, are first identified and their jobs profiled. Other necessary but not strategic employees, like an engineer, may be necessary (not strategically) in an important role as a member of a team that is strategically necessary.

These not strategically important people are still important because they will be part of teams that are strategically important, even the hourly employees on the shop floor are part of teams that are strategically important.

So we need to find a way to form teams that give the 'biggest bang for the buck' in their contribution to meeting the company's objectives. However, most companies have an a'-priori approach to putting teams together, that doesn't quite make it.

Team Building

Team building is an art (not an 'obvious' process) that overcomes differences in styles, personality and other potential areas of conflict, as well as choosing the right sets and blends of experiences and skills.

Again the smart companies will look to psychometric processes to aid them in forming the most productive teams. Remember, a major failing of many companies is their inability to execute. Assembling a team is akin to getting the "right people in the right seats".

OK, now we need to back up and address step 3 in the 'right way' instructions (above), developing a Human Capital (and economic capital) plan. In this paper, we are going to focus on developing a Human Capital plan.

Economic capital plans will be addressed briefly in context, economic planning is important, and it should be done with consideration to the results of the processes discussed herein.

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Strategies and Objectives
At this point, we can start from our Objectives and use standard corporate strategic planning methods to determine:

1. The new products that need to be introduced
2. The new markets that need to be penetrated
3. The economic capital required (or available)

It is recommended that a zero base budgeting (ZBB) process be used to match economic and human capital needs. Zero based Budgeting is a project driven process; it is somewhat laborious. Everything in the ZBB must be rank ordered and completely accounted for at regular intervals, probably at least monthly.

Projects required for meeting the company's 'Post Recovery Objectives' should be in the rank order of their importance in meeting these objectives.

Separate ZBBs should be developed to account for the economic capital required by a project and for the 'head-count' required by the same project.

Where a project's head-count requires the consideration for the combination of individual contributors, and teams, a separate nested ZBB should be developed to account for that projects head-count budget.

Human Capital Planning
So far we have talked about a methodology for "getting the right people on the bus" and "getting them in the right seats" but we still have to define how many of them we need, and when we will need them.

The first things organizationally, a business must do, is to determine what workforce-related problems it needs to solve, relating to its strategies. During this phase, organizations should answer questions such as:

- What are the jobs we need to fill to man the projects?
- Do we have, or can we get, the economic capital we will need?
- Do we have the right number of individuals with the right skills to support a new product(s) launch?
- How can we improve the productivity of our current workforce?
- Which recruiting channels will provide us with the best talent?
- What are the metrics that differentiate higher-performing managers in the most productive areas?
- What tools or help can we use to make the right people choices and the right decisions?

Businesses must identify and tackle the types of issues that will directly impact their business and the implementation of their strategies. They should employ 'gap' analysis techniques to determine the capabilities to tackle them internally. Where there is a gap they should seek outside help in filling that gap.

Getting Alignment

Understanding the often shifting requirements of human capital, and its relationship to long-term business strategy, is a senior executive conversation. One that should be couched in a rigorous, fact-based analysis of required employee and workforce performance.

Many employers recognize the importance of the analysis required for developing an effective work group, but few have experience in its implementation. And few have integrated it into an effective business process.

IBM has determined that only 6 percent of respondents think they effectively use human capital data to make workforce decisions. And only 30 percent use Human Capital metrics in developing their business transformation efforts.

Employers must move beyond the notion that HR is the sole stakeholder in the Human Capital management arena. Corporate executives as well as line managers need easy, reliable, trusted access to the indicators and details of how talent is being deployed and how it is contributing to the corporations business goals.

It is IBM's view that employers need the capabilities to address their workforce requirements analytically. For analytics to be an effective capability it must provide:

- A consistent, reliable source of employee and workforce information
- Analytic capabilities that enables fact-based decision-making in support of organizational and business goals
- The ability to continuously measure and analyze workforce activities and the return on Human Capital initiatives across the enterprise
- The capabilities to interpret business goals, align them with employee and workforce metrics and the analytic tools to measure them
- Reduce risk; in the form of predictable implementation time lines, costs and 'time-to-money' for the organization.

Analytics

The analytics needed to develop a greater understanding of talent management issues will depend upon the business's and its industry's particular challenges.

For example, many industries would appreciate an understanding of the background, skills and competencies that differentiate high performing sales personnel from average performers.

This type of analysis would be useful in terms of decisions of when to and how to invest in recruiting, and in employee development activities.

Through a strong workforce analytics capability, organizations can enable more effective strategic decision making and workforce allocation decisions.

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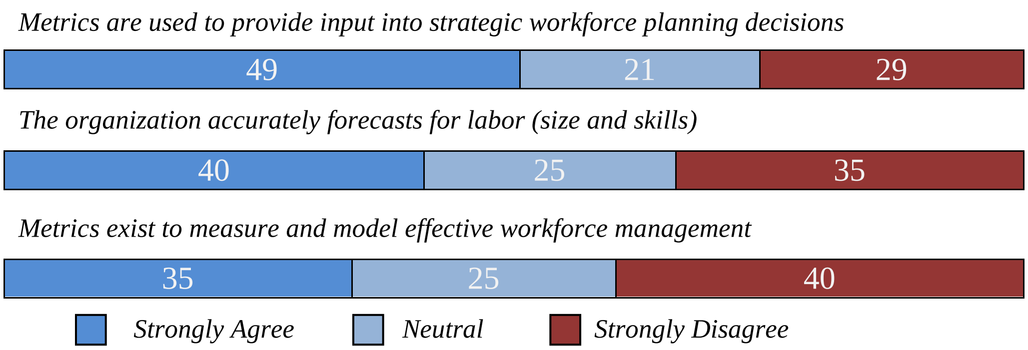
It is in this area that psychometric assessments, objective performance evaluations and 'objective leadership and management development processes' are critical. It is commonly well known that ***if you can't measure it you can't manage it.***

Analytics and metrication have become key tools for modern business executives, but their acceptance and use is spotty and seemingly not well understood.



Source IBM Institute for Business Value/Human Capital Institute

Chart 1, Challenges in Workforce Analytics

Metric usage it appears is about a 50-50 process at best and they are being applied in only 35% of the companies surveyed. Their effective application however is probably greatly less than this.

It is important to get a handle on how each employee's role in the company adds value to the organization and contributes to reaching its financial goals. Understanding the link between individual productivity and organization performance requires metrics, human capital metrics to be exact.

Zero Based Budgets (ZBB)

A zero-based budget is one where the total capital available, minus the total expenses planned, equals zero. The process would be more accurately described as a 'zero-sum' budget.

In this paper we provide general outlines on how to plan budgeted projects that align the with businesses' strategies using dollars and head-count.

The projects budgeted (in the ZBB) are individual elements of the businesses' strategic plan; i.e. the plan made to meet its Post Recovery Objectives.

In other words, the ZBB forces the assignment of every dollar of capital and every head that is applied to the execution of the businesses' strategy. As resource are expended (or projects terminated or added) there is a corresponding adjustment to the elements adding them up to the 'zero-sum' of the ZBB.

ZBB Example
The following ZBB chart is an example of the possible structure of a ZBB, an actual ZBB would be constructed using Microsoft Office Excel. Unlike conventional budgets the ZBB has the most critical element at the bottom. If the budget needs to be cut, that would start by adjusting the budgets from the top.

One of the beauties of the process is that managers can see at a glance where the head-count and the capital dollars are being expended. However it is a labor intensive process, that requires continuous management attention. For many situations these days (mid 2009) that could be quite desirous.

Bottom left on the chart, are the total dollars budgeted to complete the total project; derived from the corporations strategic plan. At the same time the head-count budgeted for each individual project aligns with the dollars budgeted.

Where projects include sub-projects, or teams of people, separate ZBBs should be developed for each. The update frequency of a ZBB will be a function of the project size and the type of business that the plan is being developed for. It is recommended that it be done at least monthly

Chart 2, Sample Zero Based Budget

Project	Budget $	$ Expended	$ Delta	Actual Heads	Delta Heads	Head Count	Profess	Exempt	Hourly
Spare Parts	$10,000.00	$0.00	$10,000.00	0	0	1	0	0	1
Contract Labor	$50,000.00	$5,000.00	$45,000.00	0	0	0	0	0	0
Printing	$5,000.00	$500.00	$4,500.00	1	0	1	0	0	1
etc.	$xx,xxx	$x,xxx	$x,xxx	etc.	xx	xx	xx	xx	xx
etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.
etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.
etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.
etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.
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etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.
etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.
⬇	⬇	⬇	⬇	➡	⬇	⬇	⬇	⬇	⬇
Sales	$75,000.00	$5,000.00	$70,000.00	22	12	34	28	4	2
Marketing	$500,000.00	$125,630.00	$374,370.00	20	36	56	42	8	6
Equip Trucks	$150,000.00	$35,000.00	$115,000.00	5	7	12	3	2	7
Power Sources	$500,000.00	$250,650.00	$249,350.00	11	21	32	15	11	6
Modulator	$6,755,000.00	$876,355.00	$5,878,645.00	6	8	14	6	6	2
Transmitter	$16,750,500.00	$4,356,829.00	$12,393,671.00	62	63	125	87	23	15
Total Budgeted	$21,574,300.00	$8,763,156.00	$12,811,144.00	132	264	376	175	64	48

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Timing for Success

The hackneyed phrase "timing is everything' has much meaning in these harsh economic times of 2009. It is recommended that a conservative approach be taken; committing too many scarce resources too early to the implementation of the Post Recovery Plan could be dangerous.

If a recovery doesn't materialize when expected, a company could be in a weaker position when the recovery does arrive. But that doesn't mean that Post Recovery Plans should not be developed.

In the meantime, there must be an understanding of how the plan will be financed. If the necessary human and financial resources have been conserved then the company is in a strong position.

If it is necessary to acquire them, it may not be possible to do so at short notice. Now is a good time to establish the access to Human and Economic Capital, and to understand the conditions under which they will become available.

Review the plan's timing every month, and consult and tune the ZBBs to test the effect of bringing forward, or delaying the implementation of the plan.

Consider the possibility of a 'double dip' recession, similar to that which Intel faced back in 1981, i.e. the resumption of growth for some quarters followed by a return to decline for more quarters followed by a continuation of growth (the 'W' shaped recession).

The Post Recovery Planning we have just outlined, may sound complicated, but the way out of a recession is never easy or predictable. Replicating technology and process is easy. Replicating human performance is not. The competitive edge will go to organizations that can link the mix of the right talent to the bottom line

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