

Cash or People

Are people really your most important asset?

CEOs often say that “people are their company’s most important asset,” and that it is the strength of their workforce that will carry the company through tough times. On the other hand, executives are taught that “cash is king” — especially in a business downturn. So what should business leaders do in the face of the current economic crisis? Should they focus on maintaining cash or people? What should they make their top priority?

	Point	Counterpoint
Focus on cash <i>“Cash is king. Everything else is a distant second.”</i>	Companies that don’t reduce costs will lose their competitive edge or go out of business.	Guess what? People <i>are</i> your competitive edge.
	When unemployment rises, it’s easy to find people.	When unemployment rises, it’s easy to find <i>bodies</i> . Real talent is always in short supply.
	First things first. Deal with the downturn now; worry about people on the upside.	If you lose your key talent now there may not be an upside later. You may not have the products you need, or be able to retain the customers you want when the market comes back.

	Point	Counterpoint
Focus on people <i>“People are our most important assets”</i>	Long-term success hinges on getting — and keeping — talented people.	The “long term” could be years in the future — particularly if we’re facing a deep and extended recession. Also, your long-term success doesn’t just depend on talent, but on maintaining competitiveness throughout the downturn.
	Short-term success hinges on having talented people and an engaged workforce	True. But that doesn’t mean you need to treat every single person like a precious asset. Identify your most talented people and make sure to take care of them.
	Although the financial crisis is getting all the attention, the talent crisis didn’t just magically disappear.	Actually, it sort of did. This might sound harsh, but the recent market crash may actually ease the talent crunch by forcing workers to put off retirement for a few years.

My take



Robin Lissak
Principal, HR Transformation

In the face of a severe downturn you may have no choice but to reduce your workforce. But that doesn't mean you have to blindly start cutting. Given the importance of people to both your short- and long-term success, it pays to have a clear plan on how to lead in a volatile economy.

Avoid across-the-board cuts. If your goal is to reduce headcount by 10 percent, it almost certainly makes sense to cut more in some areas and less in others. Be selective. You may have areas that need to grow, such as product development or sales in emerging markets. If you don't worry about designing and building things that people will want to buy, then you may have no future when the market turns around.

Make sure talent is laser focused on what really matters. Whether it's R&D, serving your best customers, or entering new markets, you need to deploy talent properly, and let people know exactly how their activities contribute to the success of the business. And remember – we're living in the Internet age, the era of instant communications. Saying something once in an e-mail or town hall meeting may not have the impact you expect. Reinforce your messages frequently.

Lead in the open. In an economic downturn, people look for a different kind of leadership. They want to be engaged and want you to tell them what's going on, how they can contribute, that they're part of the team, and that there is hope for the future. During the last recession, one global high-tech company lost the hearts and minds of its people, and although the business is now doing better than ever, it will still take many years to rebuild the lost trust in leadership.

Take advantage of competitors' mistakes. Companies making wholesale workforce reductions may inadvertently lose some of their most talented people. This is particularly true in industries facing bankruptcies or massive layoffs. Although it might seem odd to be looking for new talent while cutting staff, this could be a perfect time to recruit people who might otherwise be out of reach.

Don't mortgage your future. Talented people are hard to find — and even harder to replace. If you erode your talent base it could take a long time to rebuild it, and you may get left behind when the economy turns around. Shareholders understand this and expect you to protect their investment on both ends of the cycle.

A view from the C-suite



Jeff Schwartz
Principal, Organization & Change

Talent costs — and impacts — loom large over corporate income statements. So it's not surprising that talent issues loom large in the minds of CEOs and boards. During the final months of 2008, our global talent professionals interviewed CEOs, board chairs, and other executives about talent issues and emerging concerns. Here's what we found:

Companies are expected to "thread the needle" on talent. When it comes to cost cutting, preserving talent, and improving talent management capabilities, CEOs expect HR and talent leaders to do it all. That's one of the lessons of the past several years. Talent is a crown jewel for most companies. That means boards and CEOs expect cost cutting to be done in a manner that deliberately reviews and ranks talent so high performers and critical talent across the enterprise are clearly identified and treated well. We expect there will be little tolerance for throwing the baby out with the bath water when it comes to headcount reductions.

Branding remains key. Many companies have been painstakingly building their brands as employers in key talent markets: on campus, and across their own industries. Despite the downturn, CEOs expect to maintain or improve this brand by protecting their positions with key campuses and recruitment pools. Although the recruiting targets might be lower, only shortsighted companies will pull out of campus and key recruitment markets.

Forward-thinking organizations are opportunistically acquiring top talent. The downturn presents a rare opportunity to recruit hard-to-find leaders and critical talent. Although the numbers will be small, CEOs expect surefootedness in going after highly select talent. They also expect talent leaders to use this time to reinforce the company's commitment to key markets, products and services, and customers. Competitor missteps can lead to significant opportunities.

Top businesses are positioning for the rebound. Great companies make the most of a downturn—planning new services and products and building capabilities for the next business cycle. Of course, these efforts must be highly targeted. A clear, long-term commitment to critical and emerging sectors inspires confidence both for customers and employees.

Although talent and HR leaders are expected to help the company address its immediate bottom-line pressures, they are also expected to keep an eye on the company's strategic future. Cost reduction, especially when revenues and margins are declining, is a fact of life. However, great talent leaders will find ways to cut costs while ensuring that critical and high performing employees feel safe, rewarded, and confident that they have short- and long-term opportunities for growth and success. That's what it means to thread the talent needle.

A view from the retail industry



Thom McElroy
Principal, Organization & Change

The retail industry is going through one of its most challenging periods in the last half century. An economic crisis, declining consumer confidence, rising prices for groceries and gasoline, and a credit crunch have all combined to create a perfect storm. And because retailers employ more U.S. workers than any other industry, managing workforce costs while retaining talent is more critical than ever if they are to make it through these difficult times. So how can retailers weather the storm while still retaining their top talent? Effective talent management practices can help enable high-performing retailers to delight their customers, achieve their growth potential, and drive bottom-line results, even in this economic downturn.

Retailers will tell you the environment for managing talent has never been more complex. Competitive pressures require them to differentiate themselves through the people in their organization. Meanwhile, economic pressures have forced them to deliver an ever-increasing return on their investment in people. In simple terms, this means that if retailers want to remain competitive, they must put a greater emphasis on managing talent. Forward-thinking retailers are capitalizing on three simple strategies to manage through this period of economic uncertainty:

Focus cost reduction on low value activities while continuing to push a customer-focused agenda.

Consumers have less to spend than in the past and their hesitance — or inability — to rely on credit has created a huge crunch in the retail market. While most retailers are examining their cost structure and looking for ways to take out SG&A, the smarter ones recognize that they must focus these efforts on process inefficiency and inventory cost reduction, not on taking out customer-focused labor hours.

Recognize the importance of employee engagement. Research and experience have shown a direct link between employee engagement and customer satisfaction, which translates into higher sales. Successful retailers consistently work to promote a culture that keeps employees engaged and inspires customers to buy from them.

Build analytic capability. Investments that retailers have made (and are making) in technology have given them access to new information that can drive more effective decision-making. Building the analytical capabilities to leverage this information is a top agenda item for retailers who are seeking to capitalize on every competitive advantage. Superior analytics can help you outmaneuver the competition and generate benefits that flow directly to the bottom line.

A view from the insurance industry



Steve Hatfield
Principal, Organization & Change

The economic volatility in recent months has created a set of challenging business problems for many insurance companies. Many insurance companies have lost significant market value. The sudden loss of value has created a set of immediate business challenges that include managing profitability, share values and market capitalization, liquidity, customer retention, and talent.

Before the current economic meltdown, insurance companies already had been battling to close growing significant talent gaps in parts of their workforce. Over the past few years, older workers have been retiring in droves, and there weren't enough young workers to replace them. At the same time, increasing competition and growth in the retirement market put insurers under intense pressure to innovate, enhance their service offerings, improve the customer experience, and ramp up their sales engine. All of these forces have increased the demands for new skills and greater capacity in an increasingly competitive talent market.

The question is: How do insurers manage short-term business challenges at the same time as setting a framework for the future? What is the impact on the current business climate on how companies should move forward? How can they take advantage of the market to position themselves for the future?

Re-brand your talent image. Gen Y views the insurance industry as unattractive and boring, with limited growth potential. Yet amid the current economic uncertainty, the stability and security of the insurance industry may be viewed in a new light. Gen Y places a strong priority on social responsibility and corporate mission. The insurance industry long has been a standout in this regard but has done little to tell the story. This is an excellent opportunity for insurers to re-shape their image at a time when it will resonate strongly in the talent marketplace.

Use technology to both enable and attract workers. Predictive modeling technology can help underwriting staff do more with less. Knowledge management tools can help companies retain valuable knowledge and develop new staff as experienced workers retire. Virtual workplace technologies can help expand the talent pool to include offshore labor and people working from home. (By the way, more and more "call centers" are actually virtual, rather than physically centralized). Technologies like these can help boost the capacity of the existing workforce, support development of new staff, and help attract new hires.

Focus on non-traditional talent pools. The fastest growing labor pool in the United States is retirees and seniors, many of whom are now financially unprepared for retirement. These folks are living longer and want to work but perhaps not the standard 40 hour work week. No one has "cracked the code" on how to tap into this valuable labor pool; however, insurers have the type of work that could appeal to this market segment.

A view from the life sciences industry



Alice Kwan
Principal, Organization & Change

The current credit crisis provides an opportunity for large, cash-rich pharmaceutical companies to acquire smaller biotech businesses at low valuations. As the smaller biotechs struggle with private equity funding, they may need to merge or expand their alliances with larger players in order to survive. However, these M&A deals will add to the industry's already full plate of talent challenges: an aging workforce; a shortage of science and engineering graduates; rising operating costs; a need to drive future R&D growth and innovation; and for some companies, a need to expand globally to reduce labor costs and increase the supply of technical, engineering and scientific talent.

Life sciences companies must recognize that the talent challenge is not just about supply and demand anymore. It's about harnessing talent as a competitive advantage. To achieve this, companies must confront the changing needs and expectations of a new kind of workforce.

Give workers what they want. Today's skilled workers want rewarding work, meaningful relationships, freedom, and flexibility. Retention strategies, such as Mass Career Customization, can provide employees with flexible working arrangements and a wide range of options for professional development and growth.

Focus on critical workforce segments. In the life sciences industry, workforce segments that drive a disproportionate amount of value include the sales force, supply chain, and R&D.

Prime the pump. To boost the talent pipeline, life sciences companies must increase their media awareness, implement outreach programs, and work with academic institutions to generate positive interest in science and engineering.

Align rewards strategies. To motivate top talent and improve retention, rewards should be aligned with the stated needs of critical workforce segments, rather than with benchmarks and other external market data.

Emphasize career development. Compensation alone is not enough to retain top talent. Continuing education, leadership, and advancement opportunities are essential to long-term success.

Now is the time to start turning talent challenges into organizational strengths. A comprehensive approach to talent management can help align talent strategies and talent solutions to drive improved business results.

For more information, please visit: www.deloitte.com/us/debates/cashorpeople.

For further information about this debate, please contact:

Robin Lissak

Principal
Human Capital
HR Transformation
Deloitte Consulting LLP
rlissak@deloitte.com

Jeff Schwartz

Principal
Human Capital
Organization & Change
Deloitte Consulting LLP
jeffschwartz@deloitte.com

Thom McElroy

Principal
Human Capital
Organization & Change
Deloitte Consulting LLP
thmcelroy@deloitte.com

Steve Hatfield

Principal
Human Capital
Organization & Change
Deloitte Consulting LLP
sthatfield@deloitte.com

Alice Kwan

Principal
Human Capital
Organization & Change
Deloitte Consulting LLP
akwan@deloitte.com