

# Getting the Measure of People In A Downturn

by Mark Carter and Sean MacHale

**“There is now a great deal of evidence that the contribution of people is the largest driver of organisational performance. Systematically collecting, analysing and communicating information on the value of this contribution is vital...”**

*Evaluating Human Capital - CIPD Nov 2008*

CEOs across all organisations need to make rapid and effective decisions in today's extreme operating conditions. But many feel that they are trying to conduct surgery by candlelight. They do not have a complete picture of the workforce, the money invested in employees and the skills needed for the business. It is therefore difficult to predict the full impact of cost cutting. Research shows that spending on payroll workers typically accounts for 40-70% of the total, with the remainder split between contingent workers and outsourced services. Such costs vary widely, however, even within the same industry, and in many cases, employers can reduce them by as much as 5-10% without reducing headcount <sup>(1)</sup>.

Of course in the current environment many employers feel they have no option but to lay off employees to cut costs even if they don't have an exact handle on those costs. However, the question should be asked if in the long term redundancies cost more than they save. Taking into account potentially substantial redundancy payment costs, the potential loss of productivity given the loss of workforce numbers, and the long term cost of hiring replacements when the economy improves, the overall cost can be more than actually retaining staff and examining other ways to reduce costs while maintaining workforce productivity. Additionally, in a redundancy programme organisations run the risk that the most talented people – those that can more easily secure alternative employment – may be the first to leave. Those remaining

can be psychologically damaged by seeing their colleagues leave, often leading to poor morale and a consequent loss of productivity affecting the bottom line.

## Enhancing productivity during testing times

Research suggests that employers with more highly engaged employees report higher productivity per employee<sup>(1)</sup> so organisations should consider ways in which they can best measure engagement even during a downturn. Prudent employers realise that cash isn't the key to motivating many employees, particularly amongst the younger generation who constitute a large part of the Irish workforce. **A new study<sup>(2)</sup> finds that the most valued benefits favoured by younger Irish professionals from a list of 15, including cash bonuses are:**

- Flexible working hours
- Greater holiday allowances
- Training and development opportunities

Employers should think about the consequences for each segment of their workforce before indiscriminately cutting training spend in a downturn.

## Balancing cost reduction and talent retention

In the short term, many CEOs are understandably less worried about a skills shortage because their attention has turned to survival. Globally, the percentage of CEOs concerned about the availability of key skills fell from 61% in 2008 to 46% in 2009<sup>(3)</sup>. But even while laying off part of the workforce, ambitious

employers will continue to focus on talent attraction and retention, and may even treat this period an opportunity to attract people who would have been harder to recruit during the Tiger years.

## The Challenge for HR

In the current climate there is even more onus on HR to demonstrate, through a range of quantitative and qualitative metrics, the cost effectiveness, efficiency and productivity of the workforce. To present a viable case to the CEO they need evidenced based solutions on a range of people issues, including HR effectiveness, pay and productivity, leadership, talent, engagement, innovation and HR transformation.

If business is to maximise its return on its 'most important asset', and to retain the key talent needed to ensure short term survival and long term prosperity, then the insights provided by appropriate human capital measurement will be a crucial business resource in these most testing of times ■

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**PricewaterhouseCoopers will host and present a CIPD members evening meeting on Wednesday 11th March @ 6:30pm. Full details are available from [www.cipd.ie](http://www.cipd.ie)**

(1) *Managing People In A Changing World - Key Trends in Human Capital: A Global Perspective 2008 (PwC Saratoga)*

(2) *Millennials at Work – Perspectives of a New Generation' (PwC)*

(3) *PricewaterhouseCoopers 12th Annual Global CEO Survey*