Advisory
People and Change

What's your workforce reduction IQ?*

Talent strategies for tough times

*connectedthinking

PricewaterhouseCoopers

Table of contents

April 2009

The heart of the matter

Executing a reduction in force the smart way—Redefining talent strategies in a downturn

Unprecedented market pressures from the present economic downturn are leading many companies to focus on cost reduction and concentrate on their biggest expense item—workforce costs. All too often, workforce reduction is an unavoidable element of a cost reduction plan, so determining how to smartly realign the workforce to position the business for current and future success is essential. The constant changes companies are experiencing are forcing smart business leaders to consider new approaches to workforce reduction.

Why a different approach to workforce reduction is necessary this time around

- **The environment is different.** Most senior business leaders today have been through workforce reductions in previous downturns. However, the extreme volatility of markets, capital cost and availability, the global reach of many impacted companies, the degree of government involvement, and the uncertainty around when we will emerge from it are just a few of the factors that combine to make this downturn more intense than most others.

- **The characteristics of the workforce are different.** Staff and middle management are better networked, more mobile, and smarter about their value and their options in the market. Everyone is “linked-in” and top talent has a plan B; they will not wait for the ax to fall. Increasingly, individuals are managing their own careers, viewing jobs as modular, and constantly evaluating their options. These days, the market is less likely to punish individuals for a number of job changes. On the contrary, this often increases their brand and market value.

- **The supply of labor is different.** Structural issues are sure to reemerge. Though senior leaders are rightly focused on cost pressures now, a year ago they were worried about the baby boomer retirement wave. Current conditions have postponed this threat, but it still looms. What’s more, the unemployment rate for individuals with four-year college degrees is less than half that for the general labor market and even lower for highly experienced workers with advanced degrees. Companies that have invested in recruiting or accelerating the development of mid-level managers to increase their bench strength may regret sacrificing this valuable talent.

To protect pivotal talent and seize opportunities to upscale their workforce, forward-looking business leaders do their homework before reducing headcount. As we see it, failing to invest sufficient forethought before taking action may leave you short of the very people you need most, thereby hindering your ability to execute on business objectives. Reducing your workforce might be the right thing to do for your business now, but do it smartly to avoid inadvertently losing the wrong people. By exploring all available options for workforce cost reductions before moving forward, you will brand your organization as one that is confronting the economic crisis with decisiveness and agility while building goodwill with employees, shareholders and analysts.

An in-depth discussion

Making decisions today to position your workforce for tomorrow

Apply a data-based approach to support smart decision making

Value-based restructuring

In today's dynamic environment, conventional restructuring approaches no longer fit the bill. To avoid the disadvantages associated with conventional restructuring, a value-based initiative that incorporates tailored reduction targets based on business contribution could well be the most effective strategy. PwC's 2008 publication, *Harvesting Value While Reducing Costs: A Rapid Approach to Organizational Restructuring,* lays out a three-step approach to organizational restructuring:

1. Organizational efficiency assessment
2. Strategic talent assessment
3. Staff selection and deployment

In that publication, we provided insight on how organizations should set tailored reduction targets for businesses through organizational efficiency assessments that measure such factors as span of control, layers of management and redundant roles. Depending on what the data reveal regarding the baseline efficiency of a unit, it may make sense to cut more, or fewer, people.

Additionally—as suggested by PwC Saratoga, the leader in people metric standards—when looking to strategically target workforce reductions, organizations need the big picture. Therefore, it's important to go beyond merely analyzing the typical financial data to look at the following metrics, thereby gaining a holistic view of your talent through the lens of your strategy:

Structural	Productivity
– Executive span of control	– Profit per FTE
– Management span of control	– Compensation cost per FTE
– Management layers	– Benefits cost per FTE
– Revenue per FTE	– Labor cost per FTE
– Voluntary separation rate	– Contract labor cost
– First year voluntary separation rate	– Labor cost as a percent of revenue
– Average tenure	

In this publication, we focus on steps two and three of the PwC organizational restructuring approach. Once organizational targets are set, these steps help companies to identify the right talent to target as part of a reduction, with the overall aim of positioning the company for future success.

The strategic talent assessment

Strategic assessments are used first to identify the segments of the workforce that deliver the most value, and then the *pivotal talent that must be retained* within those segments—the high performers who should be retained and, if necessary, talent that must be acquired down the road to fill vital gaps after a workforce reduction. The strategic talent assessment involves fact-based workforce segmentation, followed by individual talent assessments against required competencies. This workforce intelligence is the foundation that business leaders need to restructure an organization for new or changing business objectives.

Focus first on identifying who is pivotal. For the past decade, many organizations have spent a great amount of time, effort and energy on identifying and managing their high performers—striving to determine what motivates these "A" players, which organizational systems enable their success and how the work environment supports desired business outcomes. While high performers are still viewed as being essential to a company, an increasing emphasis is being placed on a group of employees that we call "pivotal talent." So, how do you differentiate between these two groups?

Pivotal talent	High performers
• Individuals, roles or segments of the workforce that can create a major impact on business performance with a relatively small performance variation • May change as a company evolves, but always plays a disproportionate role in creating company value and success • Has a direct tie to delivering distinctive, unique and strategy-based value to the organization • Should be retained, motivated and engaged at all costs	• Rising stars with outstanding potential • Important to a company and warrant attention, but are not critical to company value and success • May be classified as pivotal, but this is not necessarily the case • Candidates for 'upscaling' your workforce by filling in the gaps, especially open pivotal roles • Should be retained and acquired when circumstances allow

Identification of pivotal talent is a critical part of the workforce reduction process. Once you have identified your pivotal talent, you know where your most valuable people assets lie. The next step is to further segment your workforce across length of service segments, performance, and job families.

Data-based workforce segmentation provides a full picture understanding of your employees, and identifies where businesses might be damaged if you lose pivotal talent. As workforce restructuring plans are formulated, this fact-based analysis provides an accurate and balanced baseline, as well as a model framework and ability to track and measure against targets.

Staff selection and deployment

It is only after you understand your workforce segments that you begin the individual assessment of talent. Talent assessments enable an organization to preserve talent and optimize long-term value by providing an in-depth understanding of the strengths and gaps in its talent pool. You gain this broad, deep understanding by assessing individuals against a set of validated competencies (knowledge, skills, and abilities) that they have identified as indicators of high performance and aligned with business strategies.

Talent assessments—combined with PwC Saratoga HR metrics—enable modeling of projected outcomes (e.g., labor costs and profitability assumptions, length of service impacts, etc.) and allow for industry benchmarking. It is also important to note that talent assessments can be performed more quickly if a company has a validated competency model already in place.

Think broadly about your workforce needs and options

Upscale your workforce through identification and redeployment of high performers. Individual talent assessments should be conducted with the aim of figuring out who should be retained in current roles, and who should not. By assessing workers in the units that are being sold or outsourced, you can identify those who possess the competencies required to perform in the roles that will be retained. Using a scoring mechanism, you can place employees into various groups based on whether and how they fit into your new talent model. This not only minimizes the risk of losing high-performers, but it also enables a company to strategically place high performers in pivotal positions when the competencies and capabilities are aligned. There are several ways to do this, but we believe the most effective way is to assess employees using specific competencies via a structured interviewing process.

How one company benefited from making a headcount decision on fact-based data

When a high-profile financial services company was looking to make a significant reduction in its workforce related to changes in its business strategy, management took the time to explore its alternatives and looked for opportunities to upgrade their workforce during the process.

The company had three major business units, with units A and B being less profitable than unit C. Market changes prompted strategic decisions to run-off business in unit A and outsource a majority of unit B. Theoretically, the company could have cut staff from all three units, but they wanted to avoid the risk of possibly losing top talent. Instead, the company conducted an analysis of employees across all three units to determine who would be essential to retain and could succeed in different roles.

The company identified crucial job skills and developed a competency model for select job families in unit C. They then designed a rapid assessment process that involved behavioral-based interviews compared with the validated competency model. Select individuals went through a series of three to five interviews conducted by two people with a set of target questions and a scoring mechanism.

The results were mapped and analyzed to determine placement options. Over the course of five weeks, this process determined that 25% of the positions in Unit C would benefit from upscaling with high performers identified in units A and B. The company not only achieved its overall cost reduction target – it also strategically changed its staffing model and upscaled its retained workforce in the process.

Look beyond the obvious to effectively manage risk

How you exit employees matters; there are consequences for your retained workforce. Be vigilant, looking beyond the more obvious areas of risk, such as those related to your cash position, and other economic factors. Before making any final reductions, consider how you will manage anti-discrimination laws, regulatory requirements, security issues, the return of company files and equipment, and future revenue expectations. For example, plan ahead how you will manage:

- **The risk of losing traction after the reduction is complete.** Look for ways to make change stick and enhance the workforce changes you've made. Pay attention to all the people you've retained—not just the pivotal talent—to continue developing them and keep them engaged.
- **The risk of knowledge transfer.** It's crucial to keep a close eye on your knowledge-based talent—a group that some say are rapidly becoming the most valuable human assets in today's global market. As baby boomers continue to reach retirement age, look beyond pivotal employees and high performers to monitor those key people with the quantitative, analytical, technical and global skills you'll need for the journey to future success. The financial services, health care and high-tech industries in particular should be on the lookout for knowledge-worker attrition.
- **The risk of litigation and turmoil among the troops.** Take care to reduce your workforce in a legal and respectful manner. Aside from the legal risks of using harsh tactics, you'll breed resentment among, and lose the respect and trust of, the people you retain. The very people you want to motivate to drive the company to future success will be busy wondering how you'd treat them should a similar situation arise in the future. Providing an appropriate severance package and other services (e.g., outplacement) is an example of how a company can help manage this type of risk.

- **The risk inherent in communicating the situation.** Communication is a critical success factor before, during, and after the reduction. Timing is everything. If you elect to use the competency-based reduction analysis, it's best to inform employees as to what they should expect from the process. But if you're going for conventional across-the-board cuts, there are ramifications associated with putting the word out too soon OR too late—too soon, and productivity will be replaced by fear, anxiety, jostling for position, and networking for new jobs; too late, and you'll either watch pivotal talent walk out the door or end up with lack-of-trust issues among the people you retain. In either case, it's smart to implement monitoring programs and data-theft protections to reduce the risk of seeing vital information walking out the door to an exiting staff person's new employer.
- **The risk of ending up understaffed.** Consider how you can retain existing staff and obtain non-core but still crucial personnel at a reduced cost. For example, you could look at the viability of establishing a telecommuting program, hiring temporary employees to pick up the slack, and/or expanding your talent pool via key acquisitions.

Explore all your cost reduction options

Always remember, you have options in an effort to reduce workforce-related costs. Before committing to a particular solution or combination of solutions, it pays to gather the facts and look at the variety of alternatives and cost reduction enhancements that are available.

Creative cost-reduction alternatives and enhancements

Attrition: Calculate the impact of current attrition trends on required headcount reduction

Contractors: Discontinue use of contractors in non-critical roles. Conversely, for business-critical short-term work, contractors may provide a less expensive alternative than hiring additional employees, considering associated benefits expense.

Hiring Freeze: With the exception of select critical roles, implement a hiring freeze for at least three months until the RIF has been completed and you can see the lay of the land.

Pay freezes: Consider freezing pay when market conditions result in increased workforce reductions and unemployment.

Temporary leave of absence: Offer select employees with critical skills the option of taking time off and renewing employment later.

Early retirement: Consider offering this option to transition employees.

Adjusted or shortened workweeks; fewer holidays: These are ways to keep valued employees and save money at the same time.

What this means for your business

Emerging from the downturn with the right talent

Take a forward-looking perspective

The bottom line

Companies that adopt the leading practices discussed here will position themselves to develop new leaders, shed outdated thinking, and re-imagine core products and services designed to beat out short-sighted competitors that took the conventional route and plunged headfirst into workforce reductions. By considering all your options for workforce cost reductions, you are branding your organization as one that is confronting the economic crisis with decisiveness and agility and building goodwill with employees, shareholders and analysts.

No matter what, if a workforce reduction is necessary, look to base it on the fundamentals—your revised business objectives and talent priorities. This improves the chances that the organization will be aligned with the goals of the reduction and increases its ability to quickly execute associated activities, provide substantial return to fund additional investments in long-term cost reduction efforts (e.g., sourcing, process reengineering, technology automation initiatives, etc.), and help you retain the opportunity for long-term growth.

A few key takeaways

- A different approach to workforce reduction is necessary this time around
- Apply a fact-based approach to support smart decision making
- Think broadly about your workforce options
- Look beyond the obvious to effectively manage risk
- Explore all your cost reduction options
- Take a forward-looking perspective

One last word of caution. Be sure you do not underestimate the impact the reduction in force has had on those “survivors” who remain with the company. Making sure they understand the value your organization provides to them will be essential if you are to keep them motivated and rekindle their trust.

Contact us

To have a deeper conversation on talent strategies for tough times, please contact:

Jeffrey Summer
US Talent Management Leader
People and Change
jeffrey.summer@us.pwc.com
646-471-8285

Ben Barry
benjamin.barry@us.pwc.com
646-471-9071

Jenna Kaufman Lask
jenna.k.lask@us.pwc.com
646-471-7215

Eamonn Maguire
eamonn.d.maguire@us.pwc.com
646-471-7107

Scott Stevenson
scott.a.stevenson@us.pwc.com
646-471-7803

This publication is printed on Finch Premium Blend Recycled. It is a Sustainable Forestry Initiative® (SFI) certified stock using 30% post-consumer waste (PCW) fiber and manufactured in a way that supports the long-term health and sustainability of our forests.

30% total recycled fiber