

Seeking a smarter course for growth



Companies worldwide are emerging from deeper cost-cutting than expected. What measures did they take and how did it affect human capital management?

From September to December 2009, PricewaterhouseCoopers conducted its 13th Annual Global CEO Survey. The survey looked at the measures CEOs took in response to the global financial crisis, how they view the future business environment and what changes they are making to adapt their organizations. In total, 1,198 business leaders in over 50 countries were surveyed. The following article summarizes the main outcomes and compares them to previous studies.

Headcount reductions

In the 12th Annual Global CEO Survey, conducted as the financial crisis unfolded late in 2008, 26% of CEOs told us they expected headcount reductions over the following 12 months. A year later, closer to half of respondents said they actually cut jobs and at least 80% of CEOs in each region of the world initiated cost reductions.

Companies based in North America and in Western Europe took the most drastic action, with 69% of US companies and 63% of UK companies reducing headcount. Despite the drop in consumer spending in many nations, consumer goods businesses were not among the leaders in job cuts, with only 43% of companies cutting personnel numbers.

Job cuts were most prevalent in the automotive industry (80% made cuts) industrial manufacturing (68%) and in the media/entertainment sector (71%). Utilities proved the most stable, with 21% of companies

reporting cuts. Despite this gloomy picture, 39% of CEOs hoped to increase headcount in 2010.

However, it is the long-term legacy of these headcount reductions that could impact the recovery and business competitiveness for years to come.

Human capital management practices

In previous CEO surveys not having access to people with key skills was a key business threat and was cited as the number one threat by CEOs in 2006. Fast forward to the end of 2009 and only 16% of CEOs reported being "extremely concerned" with the issue. It appears CEOs are confident of a better talent pool in recovery. Yet we believe that this optimism will be short-lived. Talent shortages caused by a general lack of key skills and hampered by demographic change, will return to haunt CEOs once the short-term glut caused by the downturn evaporates.

In the latest survey, CEOs also told us they would change a number of people management practices and processes as a result of the economic crisis. A majority of companies (79%) are intending to increase their focus and investment on how to manage people through change, which includes redefining employees' roles in the organization. The same number (79%) want to change their strategy for managing talent. And 68% will increase their investment in leadership and

talent development as a result of the crisis. The scale of these anticipated changes suggests that, for whatever reason, existing people management practices did not support the business when the crisis hit.

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Human capital failures

We believe the CEO survey highlights three major human capital failures which were brought to the surface as a result of the downturn:

- Existing **reward models are broken**. Whether as a result of regulatory or public pressure, reward models are seen as not fit for purpose in many parts of the world. This is not just confined to financial services; we are seeing criticism of reward models across almost every sector. In addition, the heavy burden of pension and healthcare liabilities are crippling many otherwise successful organizations in the US and Europe.
- CEOs were unable to move talent around quickly when the crisis hit. This led to large-scale layoffs to save cash at one extreme, but also left crucial talent gaps at the other. Organizations will have to find

more agile ways of deploying and **reallocating** talent to where it is most needed. Doing this while keeping employees engaged is key, with 75% of CEOs planning to invest in improving employee morale and engagement. As organizations move through recovery, those that underwent drastic headcount reduction now face the costly exercise of rehiring and reskilling as demand improves.

- Many **organizations lack the key skills** needed to operate and compete in the new emerging environment. For example – greater risk awareness, market adaptability, change management capability, responding to new customer demands. CEOs in many parts of the world also believe that governments have largely failed to supply a workforce with the right skills (57%). This is likely to support why 76% of CEOs plan to increase their investment in training and development.

Throughout the downturn, CEOs cut headcount and scaled back spending significantly as a result of the global economic crisis. HR has played a vital operational role in helping business leaders get through these challenging times. As companies begin to emerge, CEOs are questioning their existing people management strategies and recognizing the need for change. CEOs seem to indicate a change in focus for people management – new approaches and investment will be needed as part of setting a smarter course for growth.



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