

Companies Are Trying to Improve Employee Attitudes during the Recession⁹⁹

CEOs may have cut back sharply on management consulting in the last downturn, but that's not stopping Bain & Company's worldwide managing director, Steve Ellis, from doing the same thing Bain did during the dot-com bust: hiring. He's adding consultants in hot-growth areas such as emerging markets and corporate turnarounds, and he's more aggressively targeting former consultants who went to financial-services firms and are now "stranded." "This is a huge opportunity to grab very talented people," says Ellis.

For many managers, recessions prompt a near-automatic reflex: Hunker down, reduce head count, and cut every cost you can. While a certain dose of those bitter pills is unavoidable, smart leaders see downturns as having plenty of upside, too. Talent is cheaper. Companies can gain market share as others cut back. And savvy investments give bold players a head start when the economy picks up.

Nowhere is that more true than in the care and feeding of employees. Even amid a hiring freeze or a workforce reduction, there are ways to engage top workers. As the housing market crumbled, Home Depot cut jobs in its corporate offices. It also closed 15 locations. Still, Chairman and Chief Executive Frank Blake wanted to boost morale and set realistic goals. In addition to extending restricted stock grants to assistant store managers, he lowered sales and profit targets that hourly employees have to meet to receive bonuses. As a result, says Marvin Ellison, Home Depot's new executive vice president for US stores, the highest percentage ever of in-store employees got bonuses in the first half of this year. "We still challenged people to hit some pretty tough numbers," Ellison says.

Keeping people focused amid mounting layoffs often requires a more emotional approach. Talking about the company's nonfinancial goals can help prevent productivity from grinding to a halt as anxious employees await their fate. And once cuts are made, managers need to take time

to discuss them and why they happened. Ignoring the matter, says Christopher Rice, president and CEO of leadership consulting firm BlessingWhite, creates an atmosphere that's "like the most awkward Thanksgiving dinner. And it doesn't go away."

Amid pressure to downsize, it's easy to forget that talent retention is a critical concern during a recession. Michael Kesner, a principal at Deloitte Consulting's human capital practice, notes that "companies who took advantage of employees in past downturns were rewarded with people bailing when things turned around." To avoid that, some of Kesner's clients are adding more weight to factors employees can control—such as customer satisfaction scores or production levels—when deciding on bonuses. Others are creating discretionary bonus pools to reward poachable stars. And with some 63% of companies reporting that all or most of the stock options they've been granted in the past five years are underwater, according to a Deloitte survey of 151 companies, a few are considering the controversial step of repricing or exchanging them. Compensation research firm Equilar reports that 23 companies have done so since the beginning of the year, including R. H. Donnelley and software maker VMware.

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There are other ways to make employees feel valued. Consider Best Buy, which has watched its stock plummet 40% over the past month and announced it will hire fewer seasonal employees amid a dismal holiday shopping outlook. One way the company has also tried to keep employees engaged is by setting up online surveys to solicit ideas for cutting costs. Some 900 ideas have emerged since the surveys were sent out three weeks ago. A couple of them: save shipping costs by consolidating distribution of in-store signs and use a computerized scheduling system.

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