

Nurture and Develop

Why human capital management is critical during the crisis

By Ralf Möbus & Joachim Klein

During an economic recession human capital management and personnel development may seem to be a less important discipline compared to operational improvement and cost reduction. During these times the HR functions are typically heavily involved in headcount reduction and restructuring efforts.

Experience from the last downturn after the burst of the dot-com bubble shows that it is too short sighted to just manage against headcount numbers. People are not machines and people have memories. One-sided management of human capital during a downturn may lead to increased attrition during an upswing.

While headcount adaptation is necessary to manage costs, there are still big opportunities to be captured from the appropriate performance management processes and personal development programs. Especially in tough times HR managers have to achieve more with less, i.e. better qualification of personnel becomes mandatory: Specific management skills are required that need to be identified and nurtured from within the existing workforce. Who will turn around a company in a recession if it is not the people who are working in it?

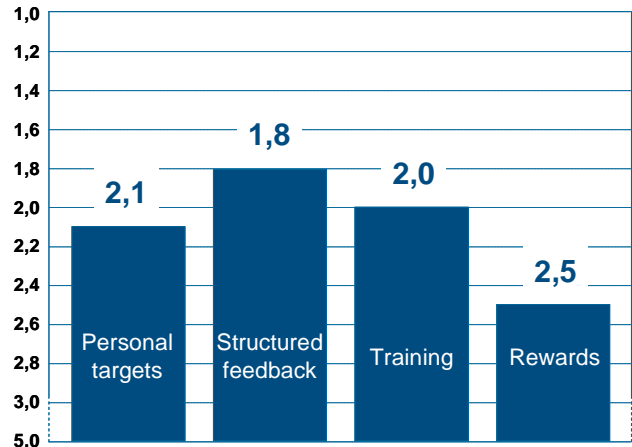
Selective skill development and target based training can be (fully) in line with performance improvement targets. Therefore it may be exactly the right time to review a company's tool-set of personal development instruments and make the appropriate adjustments. Even more because targeting your best performers now in times of (temporary) lay-offs, will help to create loyalty towards the company.

StepChange Consulting conducted an online survey about personnel development across multiple corporations in the paper and packaging sector. Results not only reveal interesting industry insights but also point to improvement opportunities, which do not always require major expenditures.

Feedback!

Survey respondents ranked "structured feedback", "training" and "personal target setting" as most effective to increasing employee performance.

What would be most suitable to increase your performance?
please rate (1: most significant; 5: not significant)



The survey also revealed that these are the areas where companies seem to struggle: Depending on company size, employees of manufacturing companies responded to only receive regular and structured feedback in 20%-57% of cases while merchants do much better in this area with more than 75% of employees receiving regular feedback.

Target area for improvement is the design of a structured and regular feedback process across the organization's hierarchy and a top down approach in training the staff to give constructive feedback. Utilizing such a process, companies can build desired management capabilities which will be beneficial in difficult economical environments, like value orientation, fast implementation skills and decisiveness.

Especially in the current economic crisis feedback mechanisms need to be used more extensively. As short term action plans are implemented it is a self-paying process to implement a structured feedback process as part of day to day operations to deal with the current challenges. The crisis represents an excellent opportunity to train tomorrow's generation of managers as the dynamic environment of the crisis allows for faster feedback cycles.

	fully agree	rather agree	rather disagree	fully disagree
Clear targets are set for my position	29%	53%	8%	8%
In our company target achievement is rewarded	22%	57%	12%	10%
Our company has a process in place to identify personal developmental needs and assign the appropriate training to the individual	16%	35%	33%	14%
I received sufficient training this year to maximize my professional performance	20%	37%	24%	18%
Our company has a regular & structured feedback process	14%	43%	27%	16%

Is money wasted on incentives?

Target setting and rewarding is practiced on a satisfactory level: More than 80% of respondents indicated that their companies have clear targets set for their position and almost 80% answered with “fully agree” or “rather agree” to the statement “in our company target achievement is rewarded”. Yet it is remarkable to find out that “rewards” were ranked least suitable to increase performance independent of being assessed by management or staff functions.

A question the survey raises is if corporations could save on rewards if they compensated with some of the other performance management areas? However the responses seem in line with Herzberg’s Motivation-Hygiene Theory. According to his theory compensation is a hygiene factor which means that motivation can hardly be impacted by it but rather satisfaction can become negative if not appropriately rewarded.

Latest studies and incentive methods rather suggest that companies fall short in offering the right rewards and linking those to the desired skill development and behaviors.

In a crisis companies can tie performance achievement more closely to the achievement of company targets in order to create win-win situations between a company and its employees.

A significant share of training effort is spend ineffectively

Even though most participants indicated that they received more than one training in 2008, some of the same participants answered that they do not receive sufficient training to maximize their performance.

A majority of these respondents indicated, that their companies lack a structured process to identify personal developmental needs and assign the appropriate training to the individual. Chances appear to be high that in these cases training activities did not match requirements and that target based skill development is either not practiced or promoted within the organization.

In the current recessive environment, it is critical to take every opportunity to increase capabilities of the workforce. And both, company and workforce will profit from targeted training activities if they are based on business requirements and address individual skill gaps.

Moving towards increasing workforce performance

In tough times companies need to retain their key employees.

A worst case scenario is that top performers leave for better offers or increased job security and less performing personnel remains. In this case below average performance can become the new standard.

To stop brain drain and put more emphasis on augmenting employee performance in times of plummeting HR budgets, it is recommended to focus on the following actions:

1. Define critical skill sets required to improve company performance. Consider functional as well as managerial skills and those that need to be manifested as part of company culture
2. Identify skill levels and potentials of the existing workforce
3. Conduct a gap analysis by mapping the identified profile of the existing workforce to the desired profile and design appropriate target based skill development programs to close the identified gaps
4. Design and implement a performance management process which requires regular feedback sessions between managers and their teams. As it is mainly a commitment of resources no additional expenses are incurred. After process set-up, managers need to be trained how to give constructive developmental feedback and how to emphasize the targeted skills and behaviors. The improvement potentials identified for the individual employee feed directly into the training demand of the company, complemented by the annual review process
5. Regularly match the identified training demand to the curriculum and adjust it if critical skills are not sufficiently achieved. There are also plenty of opportunities to increase efficiency and effectiveness of training. Get a personal trainer for a group of employees with similar training demand instead of sending each one to costly external training, additionally consider use of web based training for functional topics.
6. Review and align the incentive spend to the achievement of desired behavior. To assure that money is not wasted, incentives must be connected at all times to critical skills and thus be self-funding if these skills are achieved.

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StepChange Consulting partners with clients to develop and implement performance improvement programs with a special focus on target based human capital management and personnel development.

About StepChange Consulting

StepChange is an industry focused and independent management consulting company with a proven track record in supporting clients to achieve sustainable value. StepChange provides support to top tier organizations in the industry from strategy development to implementation of operational improvements. With an international team of industry experts StepChange can hit the ground running. StepChange provides innovative and yet pragmatic solutions, placing an emphasis on delivering measurable business results.

For further inquiries and comments regarding this Point of View please contact us at leapfrog@stepchange.com