

The Big Tradeoff: Stock Price or Talent?

By Alice Snell

Tough economic times have many organizations on the ropes. Companies have taken multiple knocks from Wall Street, consumer spending, and the financial sector. With decreased revenues and a tightened credit market, cost reduction campaigns have decimated many corporate workforces. Because it often stands out as the largest budget item, the people expense usually takes the biggest, most immediate hit.

However, last year in the *San Francisco Business Times*, Wells Fargo's Chairman Dick Kovacevich took business to task on the market's immediate profit-focused misperception of the tradeoff talent to stock price:

"There may be doubts how long (the recovery) will take, but it will get done and sooner than most people think... Why do stock prices go up with layoffs? Why is it good to lose good people?"

Talent management practitioners know that the workforce is simultaneously a company's greatest expense and most important asset. But when times are tough, which is most important? Is your organization's talent focus simply ceremonial? Or is there a business commitment to thoughtfully trim the workforce while retaining top talent rather than execute wholesale reductions in force?

Like any relationship that is affected by sudden stress, the commitment of your HR and business partnership may be strongly tested in these demanding economic times. Organizations will weigh the strength of HR's influence and where the business draws the line. Some will find creative solutions that retain top talent and boost the employment brand, take advantage of workforce mobility to transfer talent, conduct focused reductions in force, nurture candidate relationships, and use innovation to drive the eventual recovery. Others will see the war for talent become a war *on* talent.

Cash or People?

Take for example the Deloitte Debates titled *Cash or People: Are people really your most important asset?* This point/counterpoint approach gets to the heart of the matter rather quickly. Though presented as a debate, most of the advice in this publication promotes the importance of the workforce.

Although some views are focused on the vertical industries of retail, insurance, and life sciences, there is familiar—and broad-based—prescriptive advice that lines up with goals alignment, strategic recruiting, and career management. Successful organizations will focus on the opportunistic advantages of these strategies.

War on Talent?

McKinsey coined the term War for Talent. But in these times of layoffs, furloughs, and reductions in force, are we seeing instead, a war *on* talent? Attitudes towards human capital are radically shifting as the economic ground tremors persist. The top business challenges identified in one study put pressure to cut costs (83%) far ahead of leadership loss (5%) which was the only human resource factor. However, the similar *Pulse on Leaders* global study identified the top challenges as top-line growth (46%) and talent management (33%), according to Personnel Decisions International.

The perceived war for talent is no longer motivating an executive focus on talent management. The people agenda is now hanging precariously at the bottom of the priority list even though the value drivers are clear.

Business executives may be under the impression that there is top talent readily available on the market. They may think that the business can easily replace anyone. In that mindset, talent management loses its focus and employees are commoditized. Without a leadership focus on talent management led by HR, the war *for* talent could morph into a war *on* talent.

The research bears out the facts against commoditization of people: talent is a complex equation and not a simple function of supply and demand. Turnover replacement costs are real and time to hire creates a void where business performance is stressed or stalls while waiting to fill the role.

Talent management isn't only about recruiting quality talent in a time of growth. Successful talent management practices impact the bottom line in any economic season because talent powers innovation and innovation fuels recovery.

Talent Management in a Down Economy

Although some may question making talent technology and process investments, they would be missing the point. Hiring continues even in rough economic times. Talent management in a low growth economy offers new opportunities to deliver significant business performance benefits in the midst of financial constraints—especially from internal mobility, performance management, and quality of hire.

Historical data and demographic trends dispel misconceptions that HR investments should be pared back when markets get frosty. There is a distinct relationship between talent strategies, processes, practices, and the advantages that can be gained in a recession, detailed in findings from [*Talent Management in a Down Economy*](#) published by Taleo Research.

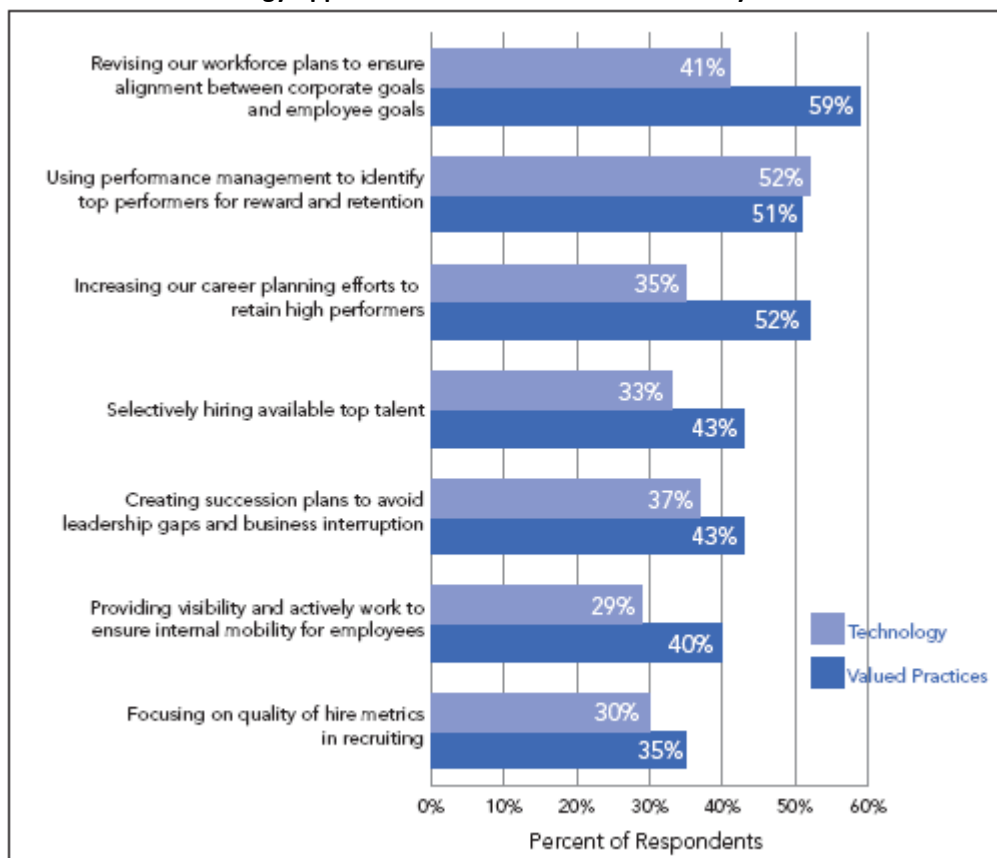
Recessionary Management

Recessionary management is simply a frame of reference for talent management practitioners to use in hard times. HR and talent management leaders need to take a holistic view of talent management if they want to aid their organizations in surviving

this recession and position correctly for the inevitable recovery. HR leaders can make the right talent decisions today, whether their organization is retrenching, maintaining, or expanding.

Key findings of the study, *Recessionary Management: The Top DOs and DON'Ts for Managing Talent in the Current Downturn* by Taleo Research and the Human Capital Institute, show that while some organizations intend to take advantage of the bounty of talent now on the market, most will struggle with the challenges of selective hiring while letting others go. Many also need to upgrade technology to make progress on the initiatives they value.

Technology Application to Most Valued Recessionary Practices



n=345

Source: Human Capital Institute, Taleo Research, December 2008

Notice the difference between the practices respondents need to preserve their bottom line and brand compared to their use of technology. Except in performance management where technology nearly matches value perception, there is suboptimal use of technology support for essential talent management processes.

Talent and Brand Connection

Talent drives business performance and superior employment branding attracts top talent. But what about the connection between talent management and a company's brand perception?

When BusinessWeek posted its *Best Global Brands 2008* list, six of the top ten and more than half of the top 50 use talent management initiatives to attract the top talent they need to distinguish their brands. On the magazine's *Best Places to Launch a Career 2008* list, seven of the top ten employ talent management.

The Society for Human Resource Management (SHRM) study, *The Employer Brand: A Strategic Tool to Attract, Recruit and Retain Talent*, says that organizations that define and align their employment brand will attract and retain people with a tighter culture fit.

Another talent and brand connection is employee satisfaction. In *The Value of Being a Best Employer*, Professor Peter Cappelli cites *Knowledge@Wharton's Does the Stock Market Fully Value Intangibles? Employee Satisfaction and Equity Prices* that connects how good a place is to work and the employment brand to a 2X+ return compared to the overall market.

Culture of Performance

There are more numbers that back up what we intuitively know about happy employees and the hidden costs of layoffs. The organization's actions and recessionary talent management practices reflects directly on the employment brand, which then impacts business performance.

Numerous articles and studies validate this view, including:

- The Economist's *Profiting from happiness* article shows how good companies to work for are also good investments because of superior performance. This relates in principle to studies which found a connection between companies that use talent management and achieve higher performance.
- Portfolio's *The Hidden Cost of Layoffs* provides insights into the unexpected results of layoffs on your workforce and the detriments to performance.
- *How to avoid death by a thousand cuts* cites findings by the Center for Creative Leadership that indicate higher motivation in companies that foster trust in challenging times.
- Libby Sartain and Mark Schumann, co-authors of *Brand From the Inside: Eight Essentials to Emotionally Connect Your Employees to Your Business*, add more evidence to the argument that building an employment brand from the inside out emotionally engages employees and candidates.

Innovation Fuels Recovery

How many times have you seen business executives wave their hand and call for increased innovation? Innovation does not just happen. It's driven by a number of factors; most likely talent is #1. In tough economic times when it's much easier to think of cost-cutting and pulling back on R&D, the innovative keep on going. They focus on business advantages and talent opportunities. BusinessWeek's ranking of *The World's 50 Most Innovative Companies* in association with the Boston Consulting Group summarizes how these organizations drive success:

"They nurture cultures that value creative people in good times and bad."

There is no innovation setting on the business control panel. You can't just switch it on. But formalized processes can help jumpstart the culture. Talent management is the strategy that sets the table for innovation. There is a renewed focus on innovation which may be a key driver of economic recovery. Innovation occurs in many ways: the development of new products or services or new ways to approach challenges. In any economic time, talent management has been proven in dozens of studies to drive innovation and make a significant bottom-line difference. Organizations that focus on talent gain a clear competitive advantage, revenue growth, profitability, and better business performance.

Watson Wyatt's Human Capital Index states the case for talent creating value:

"Companies with superior human capital practices can create more than double the shareholder value than companies with average human capital practices."

Or, as the [Integrated Talent Management study](#) by IBM and the Human Capital Institute clearly articulated in its findings:

"Organizations that apply talent management practices demonstrate higher financial performance compared to their industry peers."

Alignment Drives Engagement and Business Performance

Proving the business returns of talent management has been the mission of Taleo Research for the past decade. Analysts and academics alike support the strategies because they deliver clear economic value to organizations.

These returns are even more important in a down economy. By a two to one margin, companies surveyed in one Taleo Research study reported the largest risk to their company's bottom line and brand is low employee engagement and productivity. Why are low engagement and productivity an increasing threat? Because, in an economic downturn companies are doing more with less and cannot afford to risk suboptimal performance from any single employee.

Many drivers affect the direct connection between engagement and productivity. Among them, automated [goals management](#)—tied to [performance reviews](#) with advanced technology and reporting tools—can boost an organization’s [retention](#) and productivity.

One thing is certain in uncertain times. Using talent management capabilities linked to business strategy leads to competitive advantage and better financial performance than industry peers. As organizations position for the coming recovery, talent management professionals and managers need to communicate with the business and explain that the talent choices made now are not as simple as they might appear.