The people conundrum in times of a slowdown

A Position Paper

HR and the people agenda

A Position Paper by Anish Tripathi, Partner – Strategic Services, Grant Thornton India

We seem to be living through one of the worst times as far as the global economy is concerned, as we are faced with a full-blown recession in the major developed economies of the world, and at best, a significant slowdown in India. These are difficult times and difficult times sometimes force people to take difficult decisions. However, difficult times do not necessarily ensure that people (and companies) take the best, thought-through and rational decisions. That's what seems to be happening within industry today when they need to decide on how to handle the fallout of the global recession and the Indian slowdown, and what they should do about the "employee question".

Companies in India are just seeing the end of at least five years of a super-boom period, where growth was easy, lots of new hiring was done and salaries were going through the roof. In compensation survey after compensation survey, India was showing up on top, with the highest salary increases (across levels) in the world (amongst major economies). There was a war for talent as the skills base in India turned out to be much shallower than what was initially envisaged.

A lot of bad habits kicked in during this time, as companies did not really have the desire or the bandwidth to deal with

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such issues, as the party was going on. Hiring standards were lowered (a friend from a professional services firm once told me that he could spot a "company man" from afar in the olden days (no more than five years back), but now anybody and everybody could get in and reach any level within the firm"!) Since attrition was running riot, companies not only jacked up salaries, but fast-tracked promotions across the board (very often undeservedly) as a retention strategy (in one service sector company, in a boom year, 50% of the employees got 'promoted', which was actually no more than a re-designation, as the job content remained exactly the same), and everyone was happy. One study showed that Indian salary levels started coming close to those in the advanced economies, which when adjusted for purchasing power parity, became amongst the highest in the world, in some cases! Expats started coming to work in India in droves, as they realized that if they could get over the initial culture-shock, working here was pretty professional, and paid well too (when adjusted for purchasing power parity and offered a savings potential also). Middle class Indians stopped going to the Middle east for what were now relatively 'under-paid' jobs in an unfamiliar and less professional environment, and also started coming back from US and Europe, as the salary gaps narrowed. It is no ones brief whether these salaries were deserved or undeserved, but no one sat back and asked hard questions whether they were. No one questioned as to whether these salaries were sustainable in the Indian business model over the medium-to-long term. The world toasted India, and lulled us into a false sense of belief that double-digit growth would continue here till eternity.

Then the global crisis hit!

While the western countries seem to have entered a full-blown recession, India still seems to be battling with 'just a slow-down', and is relatively less impacted. People say that India will be amongst the last impacted by this and the first to be out of it, however, the full impact is yet to be felt and no one knows exactly how it will play itself out. However, the slowdown has now started biting, and seems to be spreading across an ever-widening ring of sectors.

Indian companies are faced with a variety of challenges, falling sales, rising inventories, uncertain market conditions, interest rates that still refuse to come down, a high number of employees, and a bloated wage bill (reflecting the excesses of the past).

The conundrum they face is how to rationalize employee costs, which is increasingly becoming a business imperative, in an environment when not so long ago, being perceived as an "employer of choice" was almost a mission, and managing attrition was a key performance indicator. Retaining people, training them, valuing them as positive contributors into corporate performance, has largely gone deep into the DNA of HR departments in India. "How then can we suddenly start asking people to leave" is a question that many people are legitimately asking. The fact that the axe can fall on them anytime has created a sense of deep foreboding in employees, and performance has started suffering, making the impact of the slowdown even worse.

So what should companies do?

Unfortunately there are no easy answers, but lets explore the implications of actions that are proposed, some alternatives and maybe some correct sequencing.

Some companies have already started the process of lay-offs in a knee-jerk manner, and anecdotal evidence of lakhs of jobs having already been lost, is vitiating the environment even further.
Sadly, we do not have a culture of numbers-driven analysis (like in the US), so that we could know the exact number of jobs lost over the past few months and in which sectors (one only hears large numbers and in approximations that vary from publication to publication). Recently a

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Ministry of Labour study across 20 sectors, estimated the number of job losses as close to 500,000 and primarily in the sectors of gems & jewellery, transport and automobiles. However, it does not provide information about the Services sector and less-so about 'white-collar jobs'.

Some companies have taken a more constructive approach towards this. One reads about the more positive and 'humane' decisions that companies have taken, like offering sabbaticals and salary cuts. However, the implication of the report seems to be that lay-offs are bad, which is not necessarily the case.

Lets try and explore whether there can be a more graduated approach, where a company can ratchet up the course of action, depending on the severity of impact of the slowdown. One of the first actions that need to be taken is a company-wide initiative involving all employees, towards cost reduction. One would be surprised by the response that one can get and the number of good ideas that can be implemented. Companies have reported cost savings of 10-15%, through the implementation of such ideas. Do not forget, that employees too are aware of the slowdown and the risk that their jobs are under. Funnily, it has been proven that the best ideas come when people are under pressure, and believe me there is no greater pressure that the fear of losing ones job! While many corporates have gone on a cost reduction binge, using top management dictates or the help of consultants, few have really been able to tap the veritable goldmine that the general employee base represents. However, it is quite obvious, that this might not be enough, so the decision tree has to move up one notch.

There will come a time when the board will need to make a well thought-through decision that reducing employee cost has really become a business imperative. Once such a decision has been taken and a mandate given, the HR department has to kick-in with a graduated approach towards this, where layoffs are the last step (not the first and the only step). Some steps that can be sequentially considered are as follows:

- Explore opportunities for job rotation and internal transfers, particularly to under-staffed departments, where they can start adding value, e.g. sales, which is a chronically under-staffed department in most places (unfortunately in favour of marketing)
- Eliminate as many contractual and temporary jobs as possible, without impacting performance, and re-allocate internal resources, as the level of activity and intensity of work would have come down already.
- Hold undeserved promotions (managing attrition need not be a priority now), but do everything to hold on to people you definitely need (and therefore carefully thought-through and deserved promotions should not be stopped).
- Limit salary hikes and bonuses (the Wall Street example is not a good one to be followed in these times) and allow for exits that might result due to this (paying to stay back is a bad idea even in good times).
- Explore voluntary / mandatory salary cuts, across the board, with a graded impact, i.e. higher level cuts the more senior you are (create a bank for the voluntary cuts at a nominal rate of interest, which could be reimbursed to the employee when times get better, say 2 years down the line – suddenly you have a new source of funds).
- Encourage employees to take sabbaticals for 6-24 months for purposes like education or social work. A combination of agreeing to bear the cost of the education upon rejoining the company (at a higher grade and pay), or continuing to pay 50% of the salary during this period, could be good

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ways to encourage staff to do so (people only want to ensure that they have food on the table and can meet their EMI payments).

- Finally, and when all else fails or is insufficient to salvage the situation, explore lay-offs

Having taken the decision to reduce your staff strength, there are many things that need to be done and planned, as this is not an easy or a quick exercise. Firstly, lets explore the fallout of having layoffs, which you should be prepared for, and then look at how to go about doing it.

Layoffs have been going on in relation to economic activity since times immemorial, right from an artisan firing a helper due to poor sales in the olden days, to a domestic help being fired upon retirement nowadays. The difference with corporate lay-offs and these is the size, scale and impact. Western economies have had multiple rounds of layoffs across levels over the years, and hence there is a sense of benign acceptance in employees, and there is no social stigma attached to it also (employees openly mention in their CVs that they were made redundant, as it does not reflect poorly upon them but their employer and the economy as a whole). They also have a good social security network, which provides employees with subsistence support, which is a great help!

In India, the social stigma attached with lay-offs is very significant, and people do tend to see it as a slight on the individual (and therefore this gets hidden in CVs). Companies need to be conscious of this reality. Although as India integrates more and more with the world, as more expats and people of Indian origin come and work here, as more Indians go and work overseas, this will change further.

The other fallout of lay-offs is not that well understood. In a growing economy, very few positions are permanently eliminated, which means that you are most probably going to spend more money in rehiring people for the positions that you laid them off for in the not-so-distant future. If a position is eliminated only for 6-12 months in a normal sector or less than 18 months in a knowledge-intensive sector, then laying people off is not worth the cost and the effort. Analysis shows that stock markets punish those companies more that announce lay-offs (as opposed to those that don't have lay-offs) simply because it is symptomatic of troubled business performance and lack of management confidence. The only exception to this rule is when companies announce lay-offs in the aftermath of an acquisition or consolidation, where there are chances of gains through productivity improvement and therefore business performance is not impaired. Sales also get impacted, as employee morale takes a hit and performance goes down. There are other aspects of laying people off, severance costs (i.e. notice pays, outplacement assistance), damaged trust (morale and motivation), reduced management credibility, lower levels of innovation and problem solving attitude, loss of accumulated knowledge and skills and most importantly the impact on attrition (some of your best people will bide their time, and find other jobs and leave when the situation improves, as a safety measure or just to get 'even'). Employees don't go out of their way to focus on rebuilding the business in tough times, but start marking time in a fatalistic manner, making things worse. But, despite all of this, there will come a time when companies just have to lay people off. Its not that there aren't any positive benefits of laying people off. This period allows you to get rid of deadwood that organizations inevitably accumulate during boom years. Non-performance gets swept under carpets during good times and needs the blinding light of bad times to get surfaced. You can also

reach out to a lot of very good talent that becomes available

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in the market during such times, at much more reasonable salary expectations, and so it kind of makes sense to do this kind of opportunistic "spring-cleaning" within the organization.

However, doing this is a very risky step (as discussed above) and can have severe ramifications. Herein lays the benefit of a structured and planned approach.

The first thing to do is to ensure that you have a good performance management system (believe me this is more of a rarity than people imagine or ccept), which relatively accurately identifies the consistently poor performers. This is a notoriously difficult step, as there was a case in a company where 50% of the entire population was identified as "exceptional performers" – this company should have been giving Google a run for its money; and it wasn't!

You must also ensure that you have a good internal communication system in place where the CEO has been communicating the realities of the market in which the company operates and whether and how much the company is getting impacted, to the entire staff on a periodic basis. This is hardly ever done, and therefore any precipitate decision, like lay-offs, comes like a bolt from the blue to the staff. Unfortunately, the two steps outlined above are 'peace-time' measures and this is war.

The steps can be broken down into what should be done before, during and after the process.

Before the lay-off:

- The process of identification of people to be made redundant should be fair, equitable, reflective of business-unit level performance, and free from favoritism and bias (again very important steps but difficult to achieve, as employees would be watching very very carefully whether the axe is being wielded fairly and uniformly).
- There are companies that decide to phase out the pain of lay-offs over a period of time, cutting a small number of people each time, in the hope that things would improve later. This is a painful process for both the company as well as the employees and therefore the cuts should be hard and deep (i.e. more than the minimum required and done across levels, i.e. not only at the junior-most levels) and done in one shot.
- Plan for the type and intensity of outplacement support that would be provided (this is a very important step) and ensure that this is announced and made available to all impacted staff who ask for it.

During the lay-off:

- Rumor-mongering can wreck havoc during this time, so ensure that the list of people impacted is kept totally confidential, and the circle of people privy to this decision is kept down to the minimum (on an as needed basis only)
- Friday, inevitably, turns out to be the best day to take such actions, essentially as it gives everyone (i.e. the staff made redundant and the others) time to absorb the news, recover and start taking actions that they need to take

  It is best not to officially communicate with staff until after the act has been done, although in these days of instant communication, news does tend to filter out across all locations (and even to ex-employees) almost immediately (please understand that the primary loyalty employees feel at this point is towards each other and not towards the firm, so just accept it)
- It is prudent to communicate the fact that such a decision has been taken, so many employees are likely to be impacted and this is the day the action will be taken to your senior management team, as they will have to

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bear the fallout of this, and therefore need to know in advance, maybe a few hours or a day before this is likely to be done (do not share the list of employees with them).

After the lay-off:

- The first thing to be done, before EOD Friday and immediately after the last impacted employee has been communicated the decision, is for the CEO to send a mail to the entire staff that this has been done, these are the people impacted, this was the reason this had to be done, and we need to move on from here and pull the organization up towards recovery.
- Do not close your channels of communications with the impacted employees. Send them a mail offering support, explaining that the decision was nothing personal, and probably prepare a nicely done 2-pager on handling the situation when one gets laid off (please remember that even though laid off, they are in daily touch with your current employees and can still impact your operations both positively and negatively)
- Reach out to the retained staff through various ways, reinforce the message that the 'surgical process' is over and done with, and you need all their support for taking the company forward

This is not a primer on how to handle lay-offs, but does lay out important steps that need to be taken care of while taking such actions. More often than not in the manufacturing sector, when companies are laying off 'blue-collar' staff (and the distinction between white and blue is fading away very fast), they do not bother about such niceties, most probably because of a class-phobia. The kind of media support that the Jet Airways staff got was not the same for the thousands of people laid off in the Diamond industry in Surat. While some of this is unavoidable, companies that focus on the long-term bother about all their value-adders (ask the engineering companies in Nashik region about the importance of skilled blue-collar workers). An interesting anomaly also seems to be that the blue-collar workforce seems to be less vulnerable than the middle-class white-collar workforce that has over-extended itself on credit (house and car, and even otherwise on credit cards, etc.). The infrastructure push in rural areas and the government-sponsored schemes have made an impact. Another interesting development is that Indian companies that had earlier actively courted expat employees to make up for the shortfall in skilled manpower, are now firing such employees first, before their Indian counterparts. This could probably be due to the feeling that they are more accepting of the concept of lay-offs or are generally higher-cost employees. Unfair as it sounds, it seems to be finding willing takers in the US too, in the IT industry there, as there are demands to fire the Indian-dominated H1B workers before the local ones are laid-off. So there is some quid-pro-quo here after all.

Maybe Indian industry can demand a new insurance product, a group insurance policy that protects the wages of laid-off workers for a period of say six months.

Someone very correctly once said, "No winter lasts forever and no spring misses its turn." These are difficult times that we are living through and many times we need to take those difficult decisions. Given the fact that laying people off can be such an excruciatingly painful affair, even if handled well, companies could very well ask whether it is worth the effort at all. There is no right or wrong answer to this, as it varies from company-to-company and situation-to-situation. However, it is prudent to say that if something is worth doing, then it is worth doing well; and it seems that there are ways in which even such things can be done well!

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About the author

Anish Tripathi is a Partner in the Strategic Services Group of Grant Thornton India in Mumbai, India.

Anish has been in the consulting profession for more than 18 years and has worked with numerous public sector and private clients in the areas of business performance improvement, strategy development & deployment, HR strategy and business planning. He has a special interest in the IT / ITeS industry, and has been involved with in thought leadership initiatives with NASSCOM and The Indus Entrepreneurs(TiE), in his previous employment.

He can be contacted at:
Email: anish.tripathi@wcgt.in
Phone: +91 (22) 6626 2624

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NEW DELHI
National Office
L 41 Connaught Circus
Outer Circle
New Delhi 110 001
T +91 11 42787070

BANGALORE
3274 / A, 11th Main
HAL 2nd Stage
Indiranagar
Bangalore 560 008
T +91 80 41471222

CHANDIGARH
Grant Thornton India
SCO: 17, 2nd Floor
Sector 17-E
Chandigarh 160 017
T +91 172 4674000

CHENNAI
Unit nos. 13, 14 & 16
11, Thiru-vi-ka Road
Royapettah
Chennai 600 014
T +91 44 45510002

GURGAON
Centre Point
A block,
Sushant Lok, Phase I
Gurgaon 122 022
T +91 124 4628000

HYDERABAD
3rd Floor, Uptown Banjara,
Road No:3, Banjarahills,
Hyderabad – 500 034
T: 040 6452 8666
F: 040-2354 0224

MUMBAI
Engineering Centre
9, Matthew Road
Opera House
Mumbai 400 004
T +91 22 66262655

PUNE
401 Century Arcade
Narangi Baug Road
Off Boat Club Road
Pune 411 001
T +91 20 410 57000