



Steering through an  
unpredictable world  
Strategies for the Chief  
Human Resource Officer

A consumer & industrial products perspective





# Introduction

The Chief Human Resource Officer (CHRO) has weathered years of talent concerns and Human Resource transformations, and now stands in the midst of an economic storm. After years of unprecedented growth, the world economy entered a long and deep recession, with the major economies of the world mired in an economic downturn. While economists sort through indicators of when the world's economies may start stabilizing, bank failures, corporate bankruptcies, and shaken consumer confidence have become subjects for daily discussion. The impact on Consumer & Industrial Products companies has been among the most acute, with significant reductions in demand for products throughout the industry. Steering through this unpredictable world requires clear and certain strategies.

As a result, Consumer & Industrial Products company executives are burdened with decisions and actions that they have never before had to consider. At the same time, the talent and operational excellence concerns of the past decades have not disappeared; if anything, these issues are more difficult than ever. In the face of the storm, actions must be taken today, but must be done carefully so as to not jeopardize potential future business success. While the current downturn necessitates hard choices, it will also likely present opportunities for those who are willing to take on the challenges. And as the economy improves, it will become even more important to make forward-looking decisions that have positive financial and people outcomes. Never before has it been as important for the CHRO to anticipate tomorrow's forecast while responding to today's storm.

In light of the complexities found in this downturn, many businesses are getting back to basics. According to research completed by Deloitte and Forbes Insights in April 2009<sup>1</sup>, executive concerns within the Consumer & Industrial Products industries are much more focused on near term strategies than in the recent past:

- 49% of survey respondents reported their companies have experienced layoffs during the most recent quarter, while 42% expect to have additional layoffs in the next quarter.
- 35% of the executives responding listed "reducing employee headcount and costs" as their top talent priority, while 50% listed "recruitment" as the lowest priority.
- Executives reported that the top three strategic issues occupying their attention are cutting and managing costs, acquiring/serving/retaining customers, and managing human capital.

Today's CHROs must support their colleagues in the C-suite in addressing their acute short term concerns without losing sight of longer term people strategies. CHROs play a critical role in helping to ensure that strategic decisions support immediate cost saving initiatives, while also supporting the needs of tomorrow. Strategic Human Resource (HR) initiatives like leadership development, workforce analytics, and global mobility will likely be important differentiators when the current downturn reverses course. How employees perceive leadership's strategic vision and treatment of employees during the downturn could have long lasting implications. It is critical for the CHRO to find the right balance between reducing workforce and operational costs and maintaining effective long term strategies that can adapt to changing economic needs. With this balance of priorities in mind, we believe the CHRO should consider specific actions in four key areas:

1. Reducing HR and People Related Costs
2. Aligning Workforce with Business Needs
3. Retaining and Motivating Key Talent
4. Building a Winning Culture

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<sup>1</sup> "Managing Talent in a Turbulent Economy: Navigating a Course through Rough Waters." Deloitte, April 2009.

# Reducing HR and people related costs

In the current economic environment, many leaders are feeling cost pressures and searching for quick solutions to lower operating costs. According to our survey results, executives that responded are considering a number of ways to reduce cost, from headcount reductions to employee benefit redesigns to job restructuring. Reducing employee headcount presents an obvious cost savings opportunity, but companies must take extra care when making headcount reduction decisions so as not to jeopardize long-term growth potential. CHROs can help business leaders identify alternatives that are both cost effective and have long-term value.

## Take a fresh look at compensation

As job security is challenged and hiring slows, conversations about compensation are changing. Yesterday's strategy and policies may not be financially feasible today. CHROs should review compensation programs for cost reduction opportunities. Immediate savings may be attainable by modifying annual incentive plans, special pay programs or base salaries through adjustments to annual merit policies or budgets. Organizations should seek the right balance between controlling compensation costs and preserving programs and policies which attract and retain critical talent.

## Review total rewards programs

In addition to reviewing compensation practices, today's environment offers an excellent opportunity to review benefit programs to determine if they are overly generous, out of step with peers, or could be designed and

administered more efficiently. In fact, in the April 2009 Deloitte study, 31% of Consumer & Industrial Products companies surveyed reported that they will consider a reduction in employee benefits as a cost savings strategy during the next year<sup>2</sup>.

Conducting a diagnostic of group health, welfare, retirement, time off programs and cost drivers can help identify immediate cost reduction opportunities. Examining plan design, funding arrangements, contractual provisions, eligibility rules, and other areas can help identify and quantify cost reduction opportunities; much of which can be realized without a negative impact to employees.

## Assess vendor relationships

Depending on the organization's size and complexity, the number of vendors for HR programs can range from dozens to hundreds. Aligning high value vendor relationships while seamlessly aligning program requirements, costs and performance expectations is a challenge, but can yield significant rewards. Based on our experience, such a comprehensive vendor evaluation effort could yield as much as 15-25% annual savings in third-party vendor costs and can help avoid future cost associated with realigning process change and technology upgrades to vendor interface requirements.

401(k) administrative fees and services should be included in the assessment. By better understanding provider practices and more diligently reviewing fees, recent economic performance and mounting cost pressures, the CHRO will have a more complete picture of the company's 401(k) plans from a fee, investment performance, service and risk perspective, and be in a better position to negotiate with plan providers.



### **Enhance HR technology to meet HR Strategy**

Many short- and long-term HR strategy initiatives will depend on technology as an enabler for delivering cost effective service. Assessing current technology capabilities against current and future HR service delivery models can help identify gaps that may prevent meeting business expectations, as well as opportunities for savings and increased efficiencies. One example is the significant gains in productivity that have been realized through the implementation of employee and manager self-service for HR related services. A second example is developing a single source for employee HR related data, which has been shown to help reduce system redundancy, improve the quality of data for decision making, and increase efficiencies gained through automation of manual processes and elimination of redundant processes and systems. Aligning HR technology with the longer term HR service strategy can provide the foundation to deliver targeted solutions to the business.

### **Aligning workforce with business needs**

Careful organization planning and workforce analytics can provide a valuable roadmap for putting the right talent in place to achieve future business strategies. Making thoughtful choices for resource allocations can help companies more effectively utilize their structural efficiencies while avoiding cuts that can overburden employees and business continuity. Equipped with the right analytics, a CHRO can provide valued guidance, helping the organization make smart decisions about realignments and headcount reductions.



### **Make smart decisions about workforce reductions**

Using a fact-based and data-driven approach to headcount reductions can lead to immediate cost savings while preserving long-term success. This approach can also help reduce the risk of legal action. Companies should use consistent criteria when making decisions about workforce reductions. Role necessity, followed by skill capability, and past/current performance were common themes in assessing workforce reductions as noted in our February survey<sup>1</sup>. CHROs should discourage across-the-board cuts and promote the use of consistent selection criteria when identifying the critical talent needed for short- and long-term success. This approach can help companies in their efforts to invest in the talent needed to grow their business.

### **Improve employee mix through workforce planning**

As an alternative to workforce reductions, companies should consider shifting some employees to part-time or contract status. According to our April 2009 survey, 38% of Consumer & Industrial Products companies surveyed are increasing their focus on reorganizing the workforce in order to save expense and retain talent<sup>2</sup>. Redefining the mix can lead to immediate cost savings opportunities by reducing payroll and benefits costs. CHROs can use workforce planning along with critical workforce segment analysis to determine which employee populations may be able to shift to part-time or contract status. Companies that re-evaluate the appropriate mix of employees can realize enhanced labor flexibility and reduce labor costs.

<sup>2</sup> "Managing Talent in a Turbulent Economy: Playing Both Offense and Defense." Deloitte, February 2009.

### **Align organizational structure with business strategy**

In the February 2009 Deloitte survey 36% of executives reported that they plan to increase the redeployment of workers to divisions and jobs in higher demand and 29% will increase the redirection of outsourced work to in-house employees<sup>1</sup>. As organizational structures and business strategies shift, taking the time to assess the organization is critical. CHROs should consider if the right manager-to-employee ratios are in place, the right skill sets are aligned to key strategic areas, and the right jobs and opportunities are available for high performers. Establishing a clear picture of the organization today can help to identify areas where future reductions can be made if needed, while also identifying areas that should be re-aligned for future success. CHROs should be asking:

- “How do we maximize our talent to create a more nimble organization with clear roles and responsibilities, streamlined processes and the capability for quick decision-making?”
- “What operating model will deliver the most value to our customers?”
- “How can we reduce the amount of duplication of work and scale around the core business? And, how can we align our resources to maximize the value being delivered by the business?”

Effectively planning the organizational structure for reductions, redeployments and realignments today may mean the difference between success and failure tomorrow.

### **Improve sales force efficiency**

The natural inclination of most organizations in difficult economic times is to downsize their sales staff in alignment with decreases in volume. Long term success, though, relies on a strong, active sales force. CHROs should partner with sales leaders to identify opportunities for staff reductions in non-critical areas and limit spending to essential expenditures. Sales leaders should be careful not to “treat all customers equally” when trying to conserve resources. Allocating resources to the highest value customers by performing analysis to determine which customers have the best return on investment can boost effectiveness. As a result, more attention can be paid to customers with rich cross-sell opportunities and greater potential for revenue.

### **Consider alternative workplace initiatives**

The standard workplace model is a physical location with each employee assigned to a workspace, creating the need for facility space, parking, communication, security, and other costs. An alternative workspace model uses technology to enable employees to work remotely through tools like collaboration software, web conferencing, and remote access to in-house computer networks. This model can lead to reduced costs related to office space and real estate costs, while also providing increased flexibility to employees.



# Retaining and motivating key talent

If reducing physical space or headcount is not an immediate option, reducing paid time may be. One key trend of the current downturn is the prevalence of reduced work initiatives. In the February 2009 Deloitte survey, 52% of executives surveyed reported that their companies plan to restructure jobs to reduce costs and increase efficiency<sup>1</sup>. Reduced work weeks and additional days off, voluntary sabbaticals, and job sharing arrangements can provide companies with immediate cost savings advantages while retaining talent. Many companies have announced reduced work hours as alternatives to layoffs, and others are starting to develop and implement innovative organizational structures that allow them to harness talent and serve customers in new ways. Considering the impact of these changes on facility needs can lead to significant additional cost savings.

## Introduce phased retirement programs

Implementing a phased retirement program can help achieve short-term cost-cutting requirements while positively impacting long-term retirement program costs. Employees view phased retirement programs favorably, using it as an opportunity to continue working and remain productive, which has positive impact on morale and culture. From an employer perspective, phased retirement for select employee populations can be a more effective approach than headcount reductions because it can help reduce costs while also retaining key knowledge and talent. The retention of key knowledge and talent can put the company in a better position to capitalize on the recovery through increased cash flow and reduced future pension liabilities and healthcare spending.

Business uncertainty often fuels the flight of top talent. As reported in Deloitte's April 2009 survey, 49% of Consumer & Industrial Products companies are concerned about top talent being recruited by competitors during the current downturn<sup>2</sup>. A company's highest performers may exit for what they consider to be a more stable situation, or they may choose to wait out the downturn, only to change jobs during the improving economic cycle that follows. As companies reduce staff and realign their organizations, CHROs should focus on keeping key talent productive and engaged. Companies must ensure that their workforce has the skills needed to succeed, especially as employees take on new roles and assignments to compensate for fewer hands on deck.



## Provide employees with development opportunities

With immediate hiring needs reduced, recruitment strategies will take a back seat to employee development. According to the April 2009 Deloitte survey, 83% of Consumer and Industrial Products companies intend to increase or maintain leadership development efforts, while 77% will increase or maintain development of high-potential employees<sup>2</sup>. We believe investing in skill development now will have important benefits, both in the ability of the company to respond to changes in product/service demands, and in the stability and strength that comes with committed long-term leadership. Additionally, companies should take advantage of current state tax training credits as a way to offset training expenses. CHROs can help their companies gain a long-term competitive advantage by implementing cost-effective strategies to build these critical skills needed for short-term viability and long-term growth.

The CHRO should implement training programs that have a high degree of effectiveness at the lowest cost. Internet-based training, which can provide quality skills training through web and telephone conferencing, is a good alternative to classroom learning. Materials can be developed in a streamlined fashion, and complete training programs can be retained on file servers and accessed by individuals on an as needed basis. Another effective strategy is to institute mentoring and job shadowing programs. These can provide a cost-effective path to much-needed knowledge transfer while satisfying employee needs. The necessity for training does not go away in these economic times; however, a shift to on-line training tools can significantly reduce costs, provide access to remote users, and enhance the delivery of quality training.

# Building a winning culture

## **Find new opportunities to engage strong performers**

During difficult economic times when morale suffers, it's important to keep strong performers challenged and engaged. One way to meet this need is to put your highly talented employees in front of global business opportunities, which are fast becoming a critical growth need for many firms. For companies with global mobility programs in place, CHROs can play a critical role in helping their companies effectively leverage their investment in international assignments.

CHROs can start by integrating their mobility programs with their talent development objectives such as accelerated leadership development, engaging generation Y or transferring capability. In addition, mobility policies and practices should provide the right options for the business to get the right people to the right jobs for the right cost. Finally, the global mobility function needs to transform from a transactional role focused on meeting employees' transportation, housing, compliance and financial needs to a strategic business partner advising line managers on the best attributes of a mobility assignment to support business and workforce objectives. Based on our experience, international assignees typically comprise 1% – 3% of a company's population, but the cost to support expatriates is typically 5% – 15% of a company's total compensation costs. By taking the steps outlined above, companies can better position themselves to achieve a competitive advantage in global deployment, while significantly reducing their global mobility spend.

As more companies increase their focus on cost improvement, CHROs should consider the impact of these actions on employees and the core values and behaviors that drive success. Typical cost reduction activities, such as headcount reduction or redesigning organizational structures, usually have a significant impact on employee morale and engagement. When not properly managed, this can prevent a company from realizing the full benefits of a cost reduction effort, and lead to more employees exiting the organization. Given the impact that people challenges could have on the effectiveness of any cost reduction, it is imperative that CHROs reinforce the importance of leadership effort and involvement during these difficult times.

## **Reinforce cost conscious behaviors**

CHROs can begin by enlisting the support of select employees to embed a cost conscious culture. Identifying role models across the organization, and consistently recognizing and rewarding cost conscious behaviors and actions can help create a mindset that helps guide employees in making the right decisions every day. Companies that identify the behaviors they want employees to adopt in a lean organization and continually reinforce these behaviors can realize cost savings.

## **Commit to frequent and transparent communications**

Cost reduction actions can create considerable uncertainty among employees and often distract them from their daily work. Executives should start communicating as early as possible to stay ahead of rumors and uncertainty and to avoid employee panic and/or attrition. An effective communications strategy will give employees the information they need to focus on their work and excel at what they do. Executives should focus on being transparent about the need for change, clear about the impacts that will be coming, and sensitive to how changes may impact employees.

Challenges within the Consumer & Industrial Products industries have never been greater, but with any challenge comes opportunity. Using the ongoing economic crisis as a rallying point, the CHRO has the opportunity to position Human Resources as a strategic, business driven function which can assist the organization in driving productivity and revenue, particularly critical in helping the organization be well positioned heading into an eventual economic upturn. In addition, by maintaining critical development programs and recruiting opportunistically, a company will be better positioned to gain an advantage in the global competition for talent. Armed with the right tools, the CHRO can support the organization's cost reduction efforts while managing the people-related risks which could mortgage its future. With an enterprise-wide influence, the Human Resource organization can drive activities today to help improve the company's bottom line and position it for future success.

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