

How to Take Advantage of a Downturn:

Managing and Investing in Human Capital

By: Clark Beecher and Jonathan H. Phillips, Magellan International, L.P.

Romil Bahl knows the secret to success for consulting firms in this downturn. The President & CEO of business advisory firm PRG-Schultz, and founder of Infosys Consulting, says it's simple – adopt the strategy today's leading firms followed during the last downturn. Rather than retrench for survival, invest in growth, especially in the talent that will be the engine of that growth. "Firms that have the P&L strength and ability to invest into a downturn," he says "invariably come out stronger."

The recession is forcing companies of all types to take a hard look at spending and investment. For professional services firms, one of the largest budget items is human capital. The typical response to a slowdown is caution. Hiring plans are put on hold and layoff plans are created. This is appropriate Bahl says, but it's only half of the equation. "You may need to downsize but make sure you're cutting in the right place and for the right reasons. It is equally or more important to reward your top performers – those who will be crucial to your innovation and success going forward."

Russ Hagey, Partner and Worldwide Chief Talent Officer at Bain & Company, shares this view. "Firms that invest in their people will, over time, be rewarded. Being thoughtful about the most talented staff and individuals is an important element," he says.

What to Focus on Now

If downturn = opportunity, what should your firm be thinking about in order to create strength now and into the recovery?

RETENTION

Retaining your best talent is a top priority. Communicate with them often and honestly and reward them now, not just if and when business improves.

"Firms may not be in the position to recruit heavily so retaining your best becomes really critical. You really have to work to keep people motivated during tough times. If you look at the top companies in the world, you will find that they have found a way to maintain their best talent in good times and bad - to make sure that they are unabashedly taken care of. It goes beyond just increased communications. There's nothing that talks as loud as action. Whether we like to hear it or not, compensation and performance bonuses are a very important element."

– Romil Bahl,
President & CEO at PRG-Schultz

"Communicate often to current employees and the top talent you are targeting. Keep people informed about your playbook for managing through uncertainty."

– Marcia Blenko,
Partner at Bain & Company

Hagey says Bain's response to the previous downturn ran counter to the typical 'cut and survive' approach in several ways. "When other firms were cancelling interviews or offers, we maintained our recruiting efforts at business and undergraduate schools," he says.

"We kept our commitments to the offers we extended which furthered our reputation on campuses." The decision to maintain recruiting at planned levels built a halo around Bain's reputation for integrity. It also sent a strong message of growth to prospective and existing employees. And, importantly, it ensured that three years later, the firm would have the talent it needed to manage engagements. In addition to keeping recruiting steady, the firm also maintained its usual global training schedule which the firm views as an important part of its culture.

Beyond staying on plan with recruiting and training, Bain also used the downturn as a time to take a hard look at its strategic goals. Marcia Blenko, a Partner in Bain's Boston headquarters, says the firm viewed the downturn as an opportunity, not a threat.

"Turbulent times are a business challenge but offer a huge opportunity to gain strategic advantage," she says. Bain decided to invest selectively in areas where it felt a strong presence would be important in the future.

What to Focus on Now

RECRUITING

Taking advantage of this window of opportunity to scoop up top talent is also highly recommended.

"If you have the financial freedom to do it, this is a great time to be out recruiting talent. There are opportunities to recruit some great people now."

– Jay Marshall, Managing Director at AlixPartners

"You can ramp down hiring efforts but keep the recruiting going, both on campus and for experienced hires. You still want to bring in ideas, creativity, and innovation. This is a great opportunity to bring in people from competitors – to stretch your thinking. You don't want to cut off new blood."

– Romil Bahl, President & CEO at PRG-Schultz

CULTURE

Keep an even keel, stick to your knitting, don't throw out the baby with the bathwater – all of the usual adages apply. Staying true to your goals and culture are critical in crisis.

"Don't lose sight of the importance of reinforcing your culture during a downturn. Decisions in a downturn have the potential to either undermine culture or strengthen trust and values for the long-term."

– Marcia Blenko, Partner at Bain & Company

What to Focus on Now

THE BIG PICTURE

While times are tough now, it is important to think out beyond the next quarter and into the future when growth is possible if it is planned for now.

"Don't give up on growth. There are very real and very different problems that companies are dealing with because of the economic climate now. The more agile businesses – those that can quickly retool to solve these new customer problems – will do better."

– Romil Bahl,
President & CEO at PRG-Schultz

"One must have a point of view on the medium term; managing for the next month, the next quarter is not really sufficient. Cycles do turn and come back so trying to pick a few spots where you're going to make investments for the medium and long term is important."

– Russ Hagey, Partner, Worldwide Chief
Talent Officer at Bain & Company

This included developing innovative practices and hiring top talent. "We used the last downturn as a period to do some partner hiring. We were able to add some very strong partners to our team and fill key geographic and industry vertical needs," adds Hagey.

These commitments to people and the business have paid off. As Bahl notes, firms like Bain and BCG who made investments in the last downturn have practice areas six times the size they were at the beginning of the last downturn. "That doesn't normally happen in a six year time frame," he says.

Hagey confirms that these investments were a major contributor to Bain's recent stellar growth. "Our people investments during this time had a direct impact on our ability to grow at double digit rates over the last five to six years and to gain share," he says.

While this recession promises to be deeper and longer than the previous down cycle, there are a few reasons that it makes even more sense to invest in people this time around. First, despite the recession, consulting talent is in high demand, a situation which is unlikely to change in the near future. The aging workforce, explosive growth in emerging markets and tough economic times for companies are increasing the demand for expert consulting advice.

"Clients need us to deliver real, high impact outcomes now more than ever," explains Blenko. "To do this, we need the absolute best talent – developing the people we have and recruiting from the outside."

Jay Marshall, Managing Director and head of Strategy and Business Development for performance and turnaround consultancy AlixPartners, agrees. "The skills of restructuring the balance sheet and working in crisis become more important in a downturn like this. In our business, we take small senior teams into clients. You can't go into a crisis or restructuring or performance improvement engagement without people who have been there and done that. So, finding and investing in the right people is paramount to our model."

Second, during more stable times, top talent is not as accessible as it can be in uncertain times like these. Layoffs result in the availability of good people who would not otherwise be job hunting. And, Marshall warns, market instability makes even a firm's top-most talent look closely at plans and prospects, making them more susceptible to offers from competing firms.

For this reason, he says, "This is a very important time to be thinking about talent management - identifying your best people, developing them, making sure they feel they have some future. You have to keep in mind that the best people, even in a downturn, are mobile. They have other opportunities. You can forget that in a cost cutting mode."

Finally, the downturn presents a window of opportunity that will diminish as the economy recovers. There will be less talent available once the recovery begins. And, the market share that is currently up for grabs will be determined now, not during the upswing.

Organizations that seize the opportunity to reassess and invest will have access to the human capital necessary to drive and sustain their desired growth. Firms that sit on the sideline, however, will miss a valuable opportunity to position themselves at the front of the pack for the foreseeable future.

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