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Cutting staff now may cost you later

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Recruitment specialist Sally Charles says companies need to think creatively during downturns. Picture: Renee Nowytarger

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AUSTRALIAN businesses are being urged to keep their best employees, not slash jobs in response to volatility and uncertainty.

Businesses often shift their focus from growth to cost cutting during economic downturns.

But those that do will miss out on new opportunities and future income streams, and risk losing their best employees to competitors and other industries.

Instead, they need to plan for the future, think creatively and be flexible during economic downturns, says Sally Charles, general manager at recruitment specialist Kelly Executive.

"The most important thing is to retain people who are of high quality, who work closely with you and who are generating money for the team," Charles says.

"If you retain your people, you retain your intellectual property, and that increases your profit and your margins.

"A lot of companies will sit down and say, 'Right, let's slash the headcount'. During the GFC some of the bigger financial institutions did exactly that, but really when they slashed their headcounts, or put freezes on, they lost valuable IP and some of those people went on to opportunities in second-tier or smaller institutions.

"Losing key people is not what you want to do."

Accounting firm RSM Bird Cameron's national head of business solutions, Andrew Graham, agrees retaining key people by making them feel secure during challenging times will ensure they do not look elsewhere for work.

However, he says Australian businesses are generally complacent and change-resistant when it comes to planning for success and overcoming difficulties.

"I think Australian business is very resilient, but I'm not sure that we always spot the opportunities," Graham says.

"I think a lot of people are just trying to get through and are often in survival mode ... Businesses have to ask themselves: is their business model still working for them?"

RSM Bird Cameron's 2011 thinkBig annual research survey of small and medium-sized Australian businesses reveals that many were optimistic about their medium-term prospects, with 73 per cent of those surveyed reporting revenue growth this year - up from the 68 per cent that experienced growth in 2010.

The study showed there was a renewed focus on growth among SMEs and many intend to use external expertise to plan their futures. However, Graham cautions businesses need to be wary of the market conditions and aware of the causes of business failure.

"There is no doubt that an economic downturn can spell the end for some businesses, and businesses are facing a volatile climate at present," he says.

"This is demonstrated by a surge in insolvencies and the appearance of increased activity by the ATO in collecting long-standing tax debts which have built up, particularly during the global financial crisis."

To survive and thrive, businesses need to watch key economic indicators (the Australian dollar, interest rates, big business cancelling major contracts or cutting staff, the stock market) and look for and act on signs of distress within the business before it's too late, he says.

Distress signals include under-capitalisation, poor financial control, poor debtor and strategic management and inadequate cash flow.

"A lot of the time sales have dropped off and their overheads and cost structure haven't changed to accommodate for that. So a lot of the time, rather than just look at cutting costs, we look at how to make businesses more operationally efficient," Graham points out.

He advises businesses to ensure they have adequate financial and production controls and processes in place to prevent their business from becoming distressed, and to act flexibly and creatively during challenging times.

"As an example, there was a printing business that had a long-standing client who came to them and said they could print the product in China a lot more cheaply than they could domestically [in Australia]," Graham says.

"That particular client was quite creative, flexible and adaptable and said, 'Yes, we can't match that price but I could project manage the printing component of it for you in China so that it is done properly and to the standard required, and then bring it back here and package it and distribute it.

"They saw this opportunity and out of it came a project management job."

Labour efficiencies can likewise be found through creative thinking. Permanent part-time or casual positions may be offered in the place of some full-time roles, and key performers can be nurtured and motivated to come up with new business ideas.

Kelly Executive's Sally Charles says new income streams can be generated by simply "listening to your people".

Ben Thompson, of HR specialist ER Group, agrees: "Up the level of recognition in the company - that has a very high return on investment."

Thompson, whose Power2motivate online employee benefits and reward system is used by Jetstar and ANZ bank, advises business leaders to provide courageous leadership, ensure employees know that their good work is valued,

and focus on in-house career development and training opportunities to keep employees motivated.

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ALWAYS PLAN FOR BETTER DAYS AHEAD

BUSINESSES should always be planning for better times, according to business leadership organisation The Executive Connection.

"But the reality is that during difficult times, businesses react defensively, curb investment and go into partial lockdown to wait it out," says the membership group's chief executive, Chris Gorman.

"The last few years have had a devastating effect on business confidence, where the lay of the land is far from predictable and businesses are more unsure than ever."

TEC represents 1250 CEOs and leaders of small and medium-sized Australian businesses.

During the GFC (2008-09 financial year), the average TEC SME member company's revenue (excluding the finance and insurance industry) increased by 7.6 per cent, and staff numbers increased by 3.3 per cent.

TEC master chair Lance Descourouez, who visited TEC recently from the group's American affiliate, Vistage International, says successful businesses are always planning for growth and effectively address the following factors: innovation, finance, talent and leadership.

He emphasises the importance of finding new ways to communicate with customers; new production methods; new products and services; the need to have a number of alternative sources for future investment; the importance of hiring talent based on the right temperament for a particular role; and the importance of having a strong and calming leader.

TEC South Australian chair Jerry Kleeman agrees.

"Organisations need to have a robust strategy in place for not only finding new talent but, more importantly perhaps, in retaining the talent they already have," he says.

"Being realistic [means recognising] that as soon as the business outlook improves, your best talent may be straight out of the door."
