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Workforce Flexibility: How to be Fit-For-Purpose

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A crisis is an opportunity riding the dangerous wind, suggests a Chinese proverb, and while the dangers of the global financial crisis were keenly felt by the business world at large and many organisations cut their workforces, others seized the chance to introduce more flexible work practices.

Flexibility became a clear point of difference from previous recessions as a means of reducing payroll costs. Practices such as leave without pay, job sharing, purchased annual leave, part or non-paid sabbaticals, as well as four-day weeks and nine-day fortnights, avoided the need to reduce head counts outright and maintained the services of employees for the upswing.

Flexibility may have assumed a new importance but there's a fine line between getting it right and maximising productivity and sustainability in organisations, says Loretta O'Donnell, academic director of the AGSM Graduate Certificate in Change Management at the Australian School of Business.

A leaner organisation is not necessarily fitter or stronger, and creating a workforce model that's easily scalable for business needs is something that still eludes most employers, O'Donnell says. "There is a point where the workforce can become flexible, but management needs to work out what is necessary for short-term survival and what is also needed to move onto long-term growth," she says. "At this second stage of managing through the global financial crisis, management needs to be much more creative, innovative and disciplined about what needs to happen now for organisations to work through this."

The crisis may have been the worst to hit the economies of the world since the Great Depression. However, valuable workforce lessons can be learnt from this era for companies today. Most think back to the 1930s as an economic desert, littered with foreclosure signs and unemployment queues, says Carol Royal, an academic at the Australian School of Business. However, one organisation that saw the opportunity in the deep economic crisis was DuPont. With unemployment topping at almost 25%, DuPont hired unemployed scientists who were laid off by competitors and invested heavily in research and development. "DuPont found this to be very lucrative, because by the late 1930s, 40% of its sales were from products they invested in early in the decade," Royal says. "Innovation was very high, and some of the products that were developed at this time, such as nylon and synthetic rubber, were world-changing products."

A similar scenario is playing out in business today. Research by O'Donnell and Royal has found that even within the same industry sector, some companies are handling workforce changes better than others. Nissan and Toyota, for example, have both laid off staff as a result of the financial crisis. However, O'Donnell says Toyota has let go mainly contractors and casual workers while keeping up significant investment in research and development, particularly in energy-efficient vehicles. In contrast, Nissan has cut back on contract, part-time staff and a higher proportion of permanent staff, and also has pulled back on research and development.

"Investors are looking much more closely at what is happening inside firms, how they are managing these short-term issues and how they are preparing for the upturn," O'Donnell points out. "While the numbers that Nissan are coming up with might good look in the short-term, in the mid- to long-term it could well be that a firm like Toyota, that has not had to cut back to the bone, might be able to capitalise on the upturn in the economy in a more sustainable way."

The BlueScope Experience

One company that took an innovative approach to scaling back its workforce in a constructive and sustainable way is BlueScope Steel. The business has been dramatically affected by the global financial crisis, possibly more than any other Australian industrial manufacturer, says BlueScope's executive general manager of people and organisation performance, Ian Cummin. "We entered this crisis with a large sector of our employees – from factory operators through to mid-professional leaders, who had never experienced a recession in their working lives," Cummin says. "Fortunately, the steel industry is characterised by long-serving, experienced, practical people – with long memories. It is also a cyclical, capital intensive industry which provides the occasional 'fire drill.'"

When the financial crisis hit BlueScope with an intensity that no one had experienced before, the knowledge and experience across all divisions of the company responded by pulling the cost levers hard, and then looking for the cost levers that even its most long-serving employees believed were out of bounds.

One particularly effective step was introducing a new category of worker called "inactive FTEs" [full-time equivalents], which captured the portion of employees' time that had been removed from the company's wage and salary budgets and also kept track of its "reserve" workforce – people who could be recalled to full-time service at short notice. Inactive FTEs comprised employees who had replaced contractors, reduced working weeks, flexi-leave takers and those away on extended leave. Cummin says "embedded contractors" were also counted – those people working as part of BlueScope Steel's usual organisation but who were employed as contractors.

In June 2009, BlueScope Steel had 600 full-time employees on "inactive" status, and Cummin says the value of having these skilled, experienced employees on call for the upturn is difficult to quantify, but would eclipse any severance savings. "This approach worked," Cummin says. When the company's Australian steelmaking doubled after June 2009 in a period of just 12 weeks, BlueScope was ready.

A key issue with any major change to employees' roles is maintaining morale, engagement and productivity. In BlueScope's experience, Cummin says it was not anticipated how important employee engagement would prove during the crisis. In fact, the relationship between the company, its employees and unions improved. "This shift empowered site leadership to engage directly with their skilled and informed work teams," Cummin says. "The result was a rapid response to the need for changes to drive down costs. Changes to shift patterns, acceptance of other duties to enable large numbers of workmates to take leave, undertaking work previously done by contractors, and many other examples demonstrated flexibility and shared commitment to constructively respond to the crisis."

There was nothing secret about the changes being implemented on a site-by-site basis, and contrary to any expectation that unions would try to frustrate the changes, Cummin recalls that union leaders in fact commended BlueScope on its approach. This constructive response was largely due to the direct relationship developed between employees and line managers under BlueScope's HR strategy; Cummin says the dominant influence over discretionary motivation is the relationship between employees and their direct supervisor. "It's good to see investment in our HR strategy having such a material benefit," he says.

A lot of companies have not fared as well as BlueScope when it comes to keeping morale, employee engagement and productivity up, as a plethora of surveys and polls have found over the past 12 months. Royal says workers of all ages have experienced resentment and fear about employers offering redundancy packages, while those who have shifted to flexible working arrangements can also feel less engaged, less loyal and less happy. "Employers have benefited from the swing of the labour market pendulum, but what is often misunderstood is that employees need to give their consent when it comes to changes to workforce flexibility," Royal says. "While there have been some benefits, such as a family friendly work life, the reality is that not all employees have been happy with such changes."

O'Donnell believes low employee engagement is a very serious issue – so much so that in some industries there are companies that are in danger of not making it. "There are opportunities for talented individuals to move elsewhere," she says. "They can either take advantage of flexibility and work reduced hours, or pack up and go somewhere else. Managers really are under a unique set of pressures to try and convince their workforce that they are serious about tightening up everything in the short-term to survive, but also remain conscious of investing in their human capital so they can remain sustainable in the long-term."

A Purpose-Built Future

While workforce models are very much a case of different strokes for different folks, O'Donnell says well-managed organisations have generally found they really do need a large proportion of full-time permanent employees to genuinely get the market leadership they need in a very competitive environment. "A company like Toyota found in the past that they can decrease a full-time workforce and increase the number of contractors to a certain point," she says. "In some industries there is a point where that becomes unsustainable because the core capabilities of an organisation really need to be managed in-house."

O'Donnell sees Google as offering one model for the future, which is based on small teams that can operate virtually while employees have one day a week to work on private projects of interest to them. "As a result of that Google has developed Google Earth, Google Maps and a whole range of other different projects that may never have come to fruition," she points out. "People are curious and need time to look for gaps in the market and ask 'Why don't we have a solution to this problem?'"

The freedom and flexibility to innovate in this way will be vital to companies in the future, and Royal says the successful enterprise of the future will be hungry for change and have a workforce model that can quickly and effectively make the most of its talent capabilities. "To do this, companies need well-integrated human capital systems that will be designed in a way so they can access the best human capital assets globally in order to drive change forward," she asserts.

Senior management needs an "employee engagement toolkit" to be able to deal with a whole range of human capital systems that will enable employees to feel engaged, Royal says, from career management and personal development for employees, through to remuneration, counselling and learning and development. "Employers need to be able to demonstrate this, particularly in the wake of the global financial crisis. They need to win back the confidence of employees, if it's been lost to some extent, and regain and maintain engagement and motivation moving forward." And this is all the more important considering the studies into corporate transformations, which show a success rate of less than 40% when it comes to achieving the desired levels of organisational change.

Cummin observes that the past 15 years or so have been characterised by the quest for "world's best practice". He suggests that if the business has learnt something about the past 12 months of aggressive cost management, it's that "fit for purpose" may become the next management mantra.