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A downturn can give smart companies a chance to upgrade their talent.

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Downturns place companies' talent strategies at risk. As deteriorating performance forces increasingly aggressive head count reductions, it's easy to lose valuable contributors inadvertently, damage morale or the company's external reputation among potential employees, or drop the ball on important training and staff-development programs. But there is a better way. By emphasizing talent in cost-cutting efforts, employers can intelligently strengthen the value proposition they offer current and potential employees and position themselves strongly for growth when economic conditions improve.

Companies can maintain their attractiveness to internal and external talent by using cost-cutting efforts as an opportunity to redesign jobs so that they become more engaging for the people undertaking them. A job's level of responsibility, degree of autonomy, and span of control all contribute to employee satisfaction. Head count reductions provide a powerful incentive to use existing resources better by breaking down silos and increasing the span of control for challenging managerial roles—thus improving the odds of engaging key talent in the redesigned jobs.

Consider Cisco Systems' approach to downsizing during the last recession. In 2001, as deteriorating financial performance forced the elimination of 8,500 jobs, Cisco redesigned roles and responsibilities to improve cross-functional alignment and reduce duplication.1 The more collaborative environment fostered by such moves increased workplace satisfaction and productivity for many employees. Initiatives like Cisco's succeed when companies focus on redesigning jobs and retaining talent at the outset of downsizing efforts.

In addition to redesigning roles, companies cutting jobs should carefully protect training and development programs. These are not only essential to maintaining workplace morale and increasing long-term productivity, but they also give people the skills necessary to carry out redesigned jobs that have greater spans of control. During the last recession, International Paper continued offering classes at its leadership institute by replacing external facilitators with the company's senior leaders.2 This approach not only reduced the cost of delivery but also, thanks to the involvement of senior leaders, redirected the content of the leadership program by tying it more closely to decisions and skills affecting the company's current performance. Similarly, IBM retained its employee-development programs during its major performance challenges in the mid- to late 1980s. It took the arrival of Lou Gerstner as CEO and a new strategy to turn the company around, but the historical investments IBM had made in developing its people helped achieve a successful turnaround.

Before undertaking widespread layoffs, companies should use their performance-management processes to help identify strong employees. Companies that conduct disciplined, meritocratic assessments of performance and potential are well placed to make good personnel decisions. These companies should also bring additional strategic considerations to the decisions. They should assess which types of talent drive business value today and which will drive it three years from now, as well as which talent segments are currently available and which will be in the future—keeping in mind, for example, that new MBAs will be equally available in two years. They should also look at which types of talent would take years to replace or develop—for instance, skilled electric utility engineers in an environment where retirements are dramatically reducing supply. Performance management well informed by key strategic questions can minimize the negative cultural impact of downsizing, improve the bottom line, and help identify talented people the company should try to retain.

Companies that are reducing staff must focus relentlessly on the internal cultural and external reputational implications of cost-cutting efforts. Although strong employer brands are resilient, it's difficult to reestablish brand strength once the culture has been damaged. The way many companies conduct large-scale downsizing decreases efficiency, morale, and motivation on the part of remaining employees. It also increases voluntary turnover among high performers and compromises a company's ability to attract strong talent in the future, as potential employees wonder how risky it is to take a job there. Counteracting these tendencies requires creativity. In 2001, Cisco gave generous severance packages and assistance with job searches to the workers it laid off and launched a program that paid one-third of salary, plus benefits and stock options, to ex-employees who agreed to work for a local charity or community organization. Steps like these protected Cisco's employer brand by attempting to make departing employees feel better about Cisco and underscored the company's commitment to its people for those who remained. The results were measurable: employee satisfaction remained high, and Cisco retained a prominent spot on Fortune magazine's "Best Companies to Work For" list.

A strong employer brand is also important for companies undertaking selective recruitment even as they cut personnel costs elsewhere. Using slowdowns to uncover and hire displaced talent is often fruitful. Studies have shown that although overall levels of recruitment may level off or even fall, the quality of workers hired rises in recessions. 3 And opportunities to find and hire displaced talent may be particularly valuable during this downturn, as massive downsizing in the financial-services sector makes available to nonfinancial companies a large pool of highly educated and motivated professionals who previously might not have considered jobs outside their previous employers or industries.

Some organizations are moving surprisingly quickly in response to these opportunities in the talent market. In late October 2008, the US Internal Revenue Service hosted a Manhattan career fair targeted at displaced financial-services professionals. More than 1,300 people attended, many standing in line for three hours to learn more about an employer that offered a newly interesting brand of "job stability."

Cost cutting during a downturn is often necessary to ensure a company's current profitability and future competitiveness. Rather than freezing all hiring and employee-development programs, companies should use this period as an opportunity to upgrade talent and better engage existing staff. This means reinvesting a percentage of the capital liberated from cost cutting into, for example, selective recruiting and development programs and in efforts to safeguard the culture and to redesign jobs so that they are more engaging to the remaining employees.

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