

Beyond Survival: Motivating Superior Performance During an Economic Downturn

The economic downturn is expected to impact Malaysian companies following the financial crisis in the US. Many organizations will respond by downsizing budgets and cutting costs in the coming financial year.

The last major financial crisis experienced by Malaysian companies was in 1997-1998 when many organizations failed to anticipate the challenges and create the necessary conditions for performance. Many organizations reacted to the challenges by reducing overhead expenses as the primary course of action. Staff overheads were one of the first items to be scrutinized. Yet, a number of companies on the stock exchange could not sustain performance. In hindsight, it was an effective acid test in differentiating sustainable businesses from the rest.

What Creates Sustainable Business Performance?

As the lessons of history have shown, reducing costs alone may be insufficient if companies intend to move beyond survival towards producing sustainable results.

A key issue is the **attitude of leadership**. Business leaders must first decide whether to just simply brave through the financial crisis and **hope for the best, or to make the best** of the current economic situation by taking advantage of the opportunities inherent in every economic downturn.

Performance = Motivation X Capability
Long-term Business Viability Depends on the Motivation of Capable Employees

Taking Advantage of an Economic Downturn

Here are some ways that business leaders can make the best of the situation and produce sustainable business results:

Cut off Loss-Making Business Activities

- One important factor that leaders need to assess is the basic profitability and long-term viability of certain business activities. An economic downturn reveals which business units are profitable through a full economic cycle. Maintaining non-economically viable activities drains resources from the profitable ones, thereby diminishing potential to produce results. **A financial downturn is a good time to assess the business model itself and revise the business plan.**

Invest in People Motivation

- It has been proven time and again that organizations that continually **invest in its people as a priority** are able to not only weather economic crises, but also are able to exploit the opportunities available and create long-term shareholder value.

As the value of tangible assets decrease, the importance of people assets increases substantially in creating value. **Best practice organizations invest in the motivation of employees during difficult times**, even though this value may not be reflected in historical-based financial statements. It has in fact been shown that **motivation increases capability**, especially the creativity required in solving complex business problems in times of crisis.

Build Long-Term Relationships with Customers

- Usually the first people to be hit during an economic downturn are customers. Customers' needs are often neglected when companies turn inward and focus on conserving cost and other internal matters. **Superior performing organizations, however, understand that customers require information, guidance and options.** The relationships built with customers in this manner during an economic downturn are extremely valuable in sustaining businesses.

Optimizing Human Resource Productivity

During times of financial crisis, the need to conserve cash and maintain liquidity becomes a priority. **Human resource cost, accounting for a major percentage of operating cost, is commonly in question at Board level.**

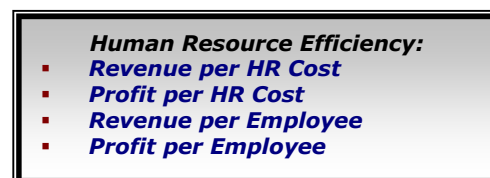
While it has been established that people are valuable assets, not all employees are performers. As a result, most organizations do not produce value that is commensurate with the current load of Human Resource cost being carried.

One solution is to reduce Human Resource cost by **distinguishing the performers from the non-performers and reducing manpower accordingly**. Retaining the right people involves a careful reassessment of the company's mission, organization design and capability requirements.

With the right capability in place, the next step would be to manage the following critical functions:

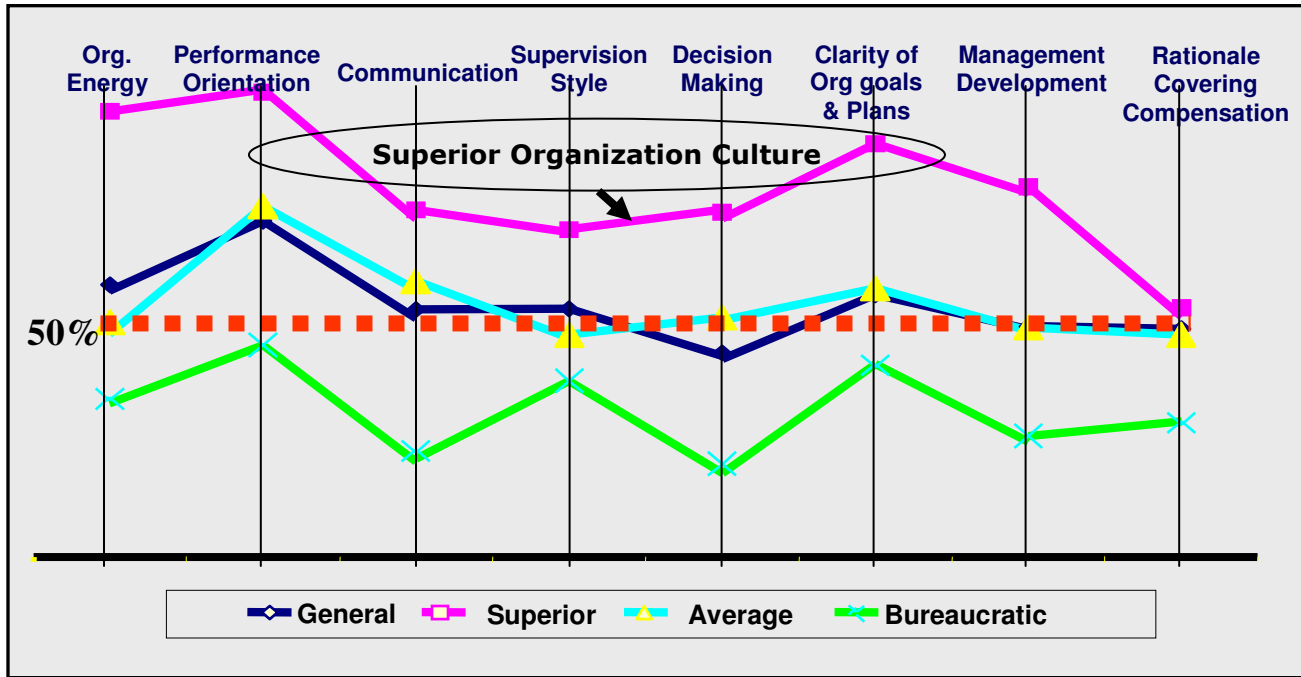
- Effective performance measurement**
- Rewarding key players significantly higher –**
Crisis calls for selective recognition

It has been shown that the following measures would improve Human Resource Efficiency significantly:



Climate for High Performance – The thinking, feeling and behaviour of employees

Since 1994, **ICC** Consultants have conducted field studies to determine the culture norms of corporate Malaysia. To establish a benchmark, **ICC** conducted a research study with participation from 45 public listed organisations in Malaysia. Shown below are the results of the organizational climate survey findings conducted by **ICC** since 1994*:



*Please contact ICC for further details of this study

It has been observed that the two **primary drivers for superior organizational** climate are:

- **Performance Orientation**
- **Clarity of Organizational Goals and Plans**

These two factors seem to bring up all other areas of organizational climate.

Discriminating for Performance - Making Annual Increment Decisions when Inflation Runs High

All observations are pointing to a depressed business environment in 2009, at least for the first half of next year.

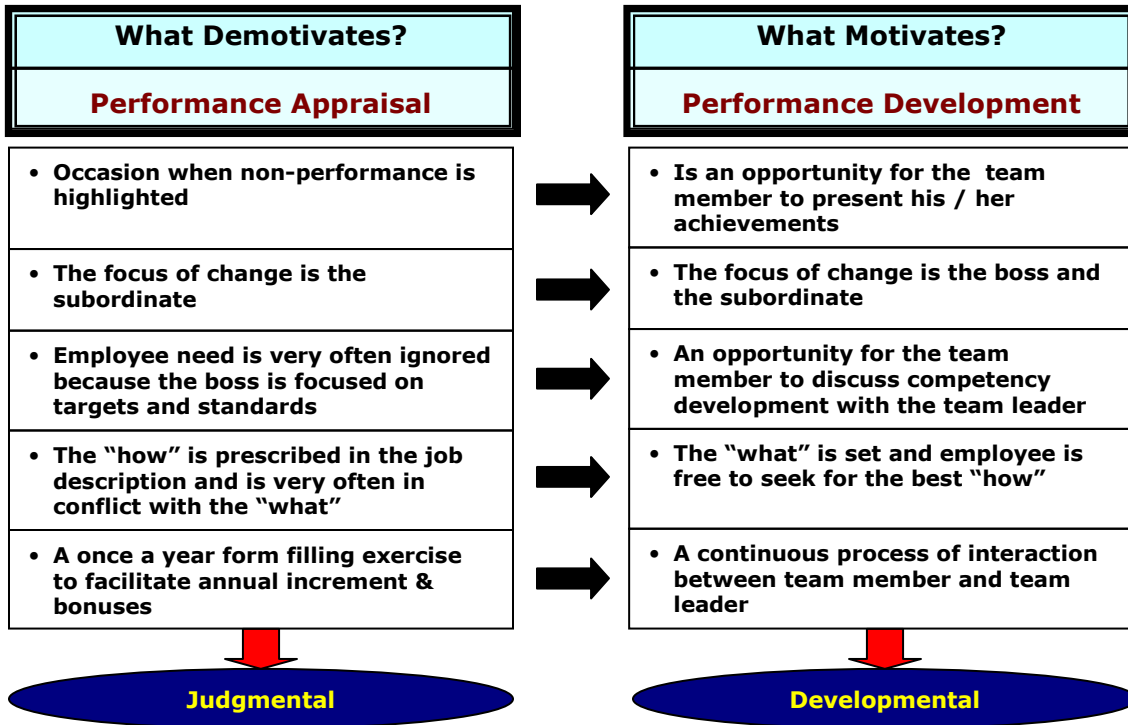
This would suggest that corporations shall not unnecessarily increase the fixed cost of their operations – the base salary component of the compensation package. However this is also the time to reward those who have worked very hard to turn in a good 2008.

Many CEOs have indicated that they are likely to pay higher bonuses whilst keeping the annual increments at inflation level only. This means the merit component of the annual increment is reduced or eliminated and the Bonus is enhanced.

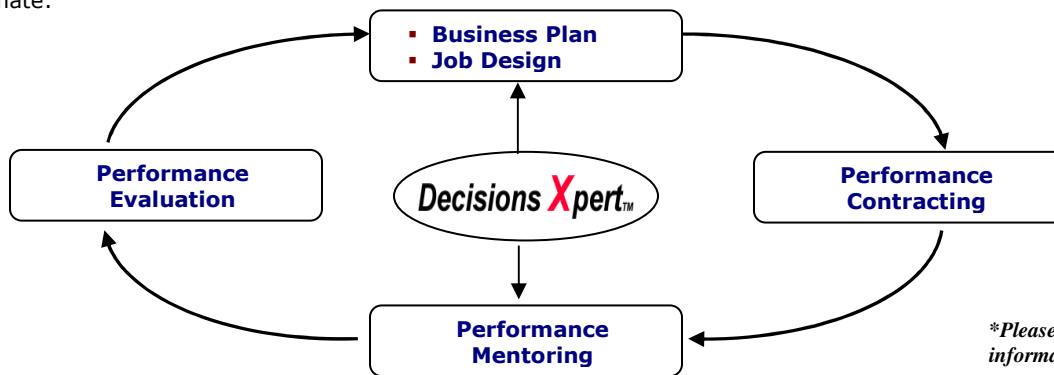
Two Alternatives:

Inflation + Merit	= Annual Increment (The usual formula)
Inflation Only (No Merit)	= Annual Increment (The merit savings are paid out as part of the Bonus)

Boosting Employee Motivation



A motivating culture requires organization to support all phases of employee relationship lifecycle (Acquire, Develop, Engage and Retain). Shown below is an integrated approach for Performance Planning, Contracting and Recognition to foster a Developmental Climate:



**Please contact ICC for further information on Decisions Xpert.*

Job Evaluation

Effective business plan implementation requires appropriate job design, the right person competencies and a pay-for-capability compensation program

Performance Evaluation

Effective management of competencies is key in area's such as performance management, recruitment, succession plan and training

Summary of Competency Match Chart

No.	Name	Designation	20%	40%	60%	80%	100%
1	Abdul Hakim Md Lassin	HRD Finance	100%	100%	100%	100%	100%
2	Arumugam	HR Executive 2	100%	100%	100%	100%	100%
3	Yap Ah Loy	HR Executive 2	100%	100%	100%	100%	100%
4	William Jefferson	HR Executive 2	100%	100%	100%	100%	100%

Recruitment

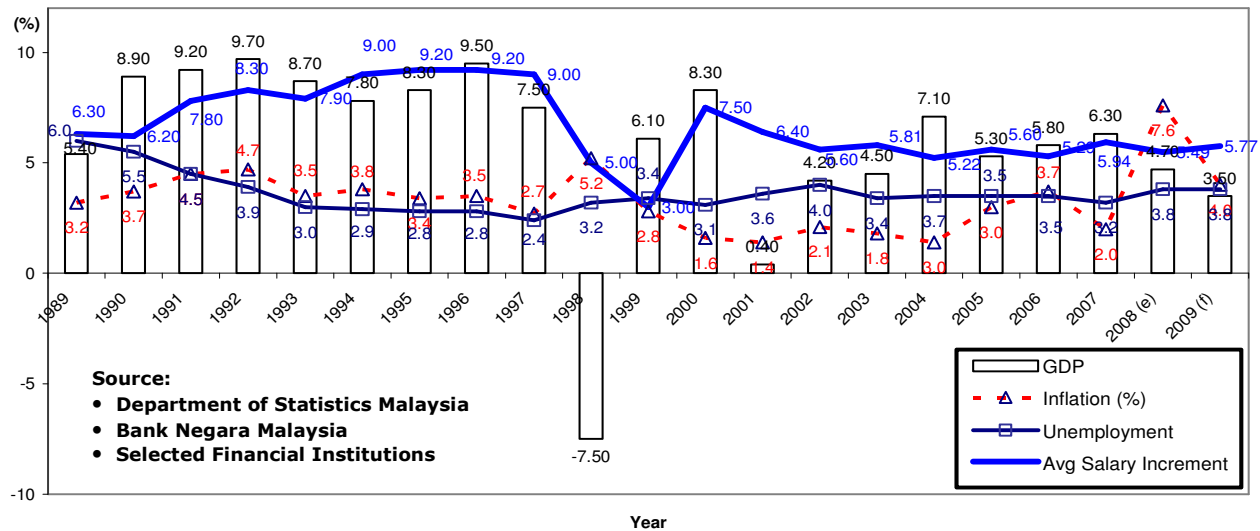
Summary of Candidate Competency Match

No.	LandMile Name	% Match AB Competencies	% Match Critical Competencies
1	Abdul Razak Bin Ahmad	92	92
2	Suzan	68	67

Malaysia GDP, Inflation, Unemployment & Average Salary Increment (1989-2009)

ICC Consultants have been monitoring selected economic figures that affect compensation directly and indirectly. The 2008 estimates are Inflation Rate 7.6%, Unemployment 3.8% and the Average Salary Increment (general market) is 5.77%.

Malaysia GDP, Average Salary Increment, CPI & Unemployment (1989 - 2009)



Source:
 • Department of Statistics Malaysia
 • Bank Negara Malaysia
 • Selected Financial Institutions

		Salary Increment (%)								
Year		2008 (Actual)			2009 (Estimated)			2010 (Forecast)		
		Min	Max	Avg	Min	Max	Avg	Min	Max	Avg
Management Level	Senior Mgt Level (Functional Heads) (Job Points 591 & above)	2.44%	8.03%	5.53%	2.75%	9.13%	6.50%	3.36%	8.45%	5.58%
	Middle Mgt Level (Job Points 441-590)	2.29%	8.47%	5.61%	2.61%	10.98%	5.66%	3.00%	8.20%	5.55%
	Executive Level (Job Points 200-440)	2.59%	8.71%	5.78%	3.09%	8.97%	6.00%	3.63%	8.57%	6.00%
	Non-Executives Level (Job Points 199 & below)	3.04%	7.56%	5.54%	3.43%	7.85%	5.59%	3.57%	7.51%	5.31%

		Bonus Payment (Months)								
Year		2008 (Actual)			2009 (Estimated)			2010 (Forecast)		
		Low	High	Avg	Low	High	Avg	Low	High	Avg
Management Level	Senior Mgt Level (Functional Heads) (Job Points 591 & above)	0.80	4.84	3.04	0.68	4.68	3.00	0.70	5.32	2.73
	Middle Mgt Level (Job Points 441-590)	0.70	4.82	2.87	0.65	4.58	2.67	0.67	4.86	2.66
	Executive Level (Job Points 200-440)	0.64	4.59	2.68	0.62	4.28	2.55	0.67	4.52	2.54
	Non-Executives Level (Job Points 199 & below)	0.74	3.88	2.53	0.85	3.85	2.36	0.93	3.88	2.27

*The information shown above was obtained from companies / organisations that practiced systematic HRM decision making.