Modern Management Techniques As Applied To The Staffing Industry

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Background

The staffing industry has undergone a lot of change. Things are only proceeding at an even faster rate today due to the so called new normal economy, outsourcing, higher productivity with less need for semi-skilled labor and commodization. Modern management techniques have now been standardized in everything from technology and six Sigma processes to cost/benefit ratios, the use of DCF-ROI budgets and strategic planning. We need to see what successful companies are doing to set them apart from their competition and apply these concepts to staffing.

One of the keys that the management culture empowers employees is something that can be very difficult for the competition to duplicate. We will explore several methods successful companies are using today.

I have selected three recent books: Bill Burnett's, *Advantage*, Bill Breen's, *The Future of Management* and Daniels Kuhnman's, *Thinking Fast and Slow*, plus *Wall Street Journal* articles. Many concepts were reinforced from one source to another.

Creating a competitive advantage is key to success and we must recognize that we are in a commodity industry. Anything we can do to separate ourselves from the competition is critical. New intellectual property (IP) can be copyrighted and give one some legal protection. Creating value added services with demonstrable savings to the client is critical. But one must constantly stay ahead of the curve, and add new innovations.

Leaders have something akin to Management DNA to hire and retain first rate talent to inspire and provide a positive work environment. This fosters ideas and innovation where employees are respected and are connected throughout the company. Contributors grow and laggards are rooted out in a self regulating democracy. These companies hire slowly and terminate quickly; the famous Neutron Jack Welsh would get rid of the bottom 10% each year and handsomely rewarded the top 20% of innovators in meaningful ways.

Some ideas are simple improvements on an existing framework; others are truly revolutionary and are the ones with the greatest payoff and rewards. Very often 95% of the job is simply defining the problem and 5% is then solving it. But innovation entails risk and one needs to be comfortable with this. One can spread this risk however as VC's do with a number of projects. In fact only 0.3% of innovations hit the proverbial jackpot and few ever bear fruit. The ones that do pay off, more than compensate for all the others.

Another way to reduce risk is by integrating innovatative projects within profitable units. Have a mentor. Make growth a top priority. Learn from success as well as failure. Provide feedback. Monitor different milestones such as the number of new clients. Be honest and open with employees. Have metrics appropriate for start-ups and don't expect unrealistic quick breakeven points. Have clear accountability and if things fail, terminate the experiment early.

Efficiency improves with the free exchange of resources and people between teams in a matrix or lattice organization with nodes of connectivity. But when people commit themselves, it is considered a sacred trust that they will be fully invested into. To quote Jim Collins from his *Good to Great* best seller, "Rigid hierarchical companies stifle innovation."

Burnett rates five key factors in determining success: employee passion for knowledge at 35%, creativity 25%, imagination 20%, intellect 15%, diligence 5% and obedience at 0%.

A Peter Drucker concept is a flat organizational structure with five to seven people in a group; supervised in clusters of 15-20 pods networked together with one person coordinating this effort, with the occasional superstar (i.e. a truly gifted programmer who can out produce 20 others).

It should be recognized that innovators can be found anywhere throughout the company. Many such people are introverted and need to be encouraged to feel part of the team. Google has many of these types and sets aside 20% of their time to work on their own ideas, but they hire the best and the brightest to start with via a grueling interviewing process.

The web has transformed us from a post industrial to a modern management society with the customer now having tremendous leverage and knowledge with implications we can't dream of now. A McKinsey study linked strong performance to trust and engagement vs. fear, losing one's job and intimidation. This may be more obvious in the product development world. We have already seen the third generation of iPad's in just two years and it is rapidly obsolescing laptops.

But this works even in the retail and service sectors. Think of Starbucks, Whole Foods, The Geek Squad and the niche market created by an army of personal shoppers. To quote Einstein, "If that first idea is not absurd, there is no hope for it." Yet some executives shun intellectual curiosity and risk taking and double down on generating current profits and guarantee ultimate failure. For sure we should fully support cash cows, but must give sufficient resources to rising stars or they will never mature.

Obviously, not all CEO's are visionaries. Kodak, Polaroid, Xerox are all but gone and even GE almost rode the incandescent bulb profits into oblivion. The CEO of IBM said there was a market for at most five computers in the world. Roger Smith, the CEO of GM was only concerned about management's quarterly bonuses and would do anything to avoid a strike and the company only avoided bankruptcy due to serendipitous government action and a forced restructuring from top to bottom. Other CEO's are insecure and feel threatened by having bright upstarts challenge the status quo.

On the other side of the spectrum, we see people like Steve Jobs who drove others relentlessly to convert his vision and empowered them to deliver and get new products out the door even if they had to be refined later. Jobs invested heavily in innovation after the dot com bubble burst in spite of low profits. Contrary to most others, Job's focused on problems that needed to be solved from the customer's standpoint, sometimes even before they expressed those needs. This is very different from the engineering approach that adds all sorts of bells and whistles that only confuses and turns off the customers and complicates things.

Then, we have the complacency issue where people are asleep at the switch and missed a critical anomaly. We fall into a false sense of security by ignoring early warning signs that something might be very wrong or we might have just missed a critical opportunity. This is known as the Black Swan theory; something that is so unusual and unpredictable that no one believed what they were seeing, dismissing it as an artifact or ignoring it as a possible paradigm shift that can have a major impact on ones business.

The most recent event of this type was the 2008 Great Recession that caught everyone flat footed and brought us to the precipice and another real depression and resulted in our New Normal Economy; i.e. big financial institutions could not fail again after all the safeguards we put in effect after the Great Depression (forgetting that we gutted many of them and created loopholes and exceptions).

Then we have the White House security fiasco where they thought security was foolproof and no one could get through their multi-level safeguards; yet two party crashers did just that (the Salahi's in 2009). Or our DOD Internet security system was so good that no one could steal our top secrets, except for all those hackers who walked away with the blueprints for many of our top weapons projects.

Many people have a built in bias for a quick fix or going with one's gut for the answer as they are not comfortable with doing the math. In an emergency situation this may be fine, but this is often wrong. Here are just a few examples. A lily pad doubles its size on day one and it takes 48 days to cover the pond. How long would it take to cover half the pond? The quick response is 24 days, while the correct answer is 47 as doubling on day one adds one lily pad a day. Tornados frighten more people than lightening but kills 1/20th as many people; in turn lowly botulism kills 52 times more people than lightening. Dogs kill 10 times as many people as sharks, but don't tell that to people that saw *Jaws*.

Finally, BP saved a few million dollars by expediting production several days but that shortcut cost them $40 billion. Management must do the math and run out alternative scenarios before committing to a course of action. Instead of "knowing the answer" and using numbers to justify their decisions, they should take the time to think about things thoroughly before making decisions.

Recent Economic History

It is easy to forget the degree of changes over the last few decades that have impacted the economy and in turn staffing. As per the old maxim, the only constant is change and this process is accelerating. This is why passion for knowledge and leadership are so critical; so here is a short review of history.

In the 1950's, manufacturing started to leave the Northeast for the Carolinas. Union membership started its decline. The high tech computer era began. DNA was discovered and the biotech era began and the space race generated huge pay offs for industry.

In the 1960's, we had the Vietnam war and massive social change. Manufacturing saw a flood of inexpensive imports from Japan due to cheap labor.

In the 1970's, production spreads thru the Sunbelt for even lower cost and tax breaks. Japan became a major auto/chip producer due to low cost and high quality. The rustbelt exodus then began due to high labor cost and poor quality. Inflation reaches 15% and price controls were enacted. Environmental concerns began after Love Canal and Three Mile Island and U.S. real wages stagnated.

In the 1980's, we saw the S&L loan crisis due to insider trading and the Dow fell 25%. Terrorism acts started with plane hijackings and the first World Trade Center bombing. Free trade and NAFTA legislation passed to reduce inflation. Japan's miracle ended and its long recessionary slide began. The Middle East wars started with Iraq invading Kuwait and resulted in Gulf War I.

In the 1990's, concerns about pandemics arose from AIDS to the Ebola virus along with environmental, global warming and the depletion of natural resources. The USSR collapsed and we were left as the only world superpower. Unemployment hit 11% due to excessive exuberance, the "Greed is Good" mentality and the rise of Gen X&Y. This ended with the Y2K hype and the dot com bust.

The 2000's saw true interconnectivity, an explosion of cell phones, texting, apps, and the social media explosion with unemployment falling to 4%. China became an economic superpower embracing capitalism along with the rise of the BRIC nations. IT was being outsourced to India and manufacturing to the Far East. The human genome code was cracked accelerating biotech growth. 9/11 happened, kicking off Gulf War II. Computer viruses and worms were popping up everywhere, followed by the Enron fiasco, Sarbanes Oxley, The Great Recession, Madoff and eventually the New Normal Economy with the stock market falling 50% and record housing foreclosures. Midterm elections led to political gridlock.

In the 2010's, Bin Laden was killed, the stock market recovered and the economy slowly improved, but businesses sat on $2 trillion in cash and record deficits were reached. We started the exit of troops from the Middle East; GM regained its top spot as the auto industry recovered, but with the U.S. deficit, entitlements became a top problem without good solutions, along with Europe's problems.

Recent Staffing Changes

The changes that have occurred in staffing have been impressive as well. In the 1950's, perm moved from applicant to employer paid fees.

In the 1960's, our industry grew rapidly due to franchising.

1970 started with a major downturn in perm and high unemployment led to the growth of the outplacement industry as corporations restructured their workforce.

In the 1980's, temp grew 2.5 fold with niche markets and TTH. The factoring industry was created to provide capital to small staffing firms and staffing specific front and back office systems were created to integrate operations. Temp made major inroads in staffing and grew another 2.5 fold during this decade. Personnel companies were rebranded as staffing services and PEO's became a major market as clients outsourced employee benefits to cut costs.

In the 1990's, Wall Street took notice of staffing, as companies went public, IPO's exploded and mergers hit an all time high by the end of the decade. VOP and VMS started to commoditize the business reducing margins. Temp grew another 2.5 fold during the 1990's and IT became a major market with high margin rates but the recession hit all sectors after the last recession.

The new millennium began with a recovery in 2003 as typical in normal business cycles. Workers' compensation costs increased and the impact of the Internet and job boards cut margins. The "World is Flat" economic impact was felt with India in IT and China's on LI staffing.

The economic crisis hit staffing full force with temp staffing off 25% and perm down 50% by mid 2007. 12 million jobs were lost as unemployment topped 10% and acquisitions fell over 80% from their peak. Direct hire fell 53% and temps 23% in 2008. Automation reduced manpower needs and LI employment fell 11% worldwide.

Staffing firms tried to maintain margins via creating value-added services. Social media became a major communications tool, changing the standard sales and recruitment model.

In the 2010's, the new normal economy favorably impacts temp staffing due to a 13% cost savings and temp grew from 1.6% to 2.3% of the labor force. Thus temp is more than keeping pace with the economy, even as direct hiring is rising.

Employment is on pace to reach pre-recession levels in two more years, with over four million jobs added and a 2% drop in the unemployment rate. *As changes in staff-*

Modern Management Tecjniques . . .

ing accelerate the kind of management structure we have described can best anticipate events and then properly position them to take advantage of events.

How To Apply Change To Managing Staffing

Even with our current high unemployment rate some 1/2 of a million light industrial jobs go begging for lack of basic computer skills and knowledge of numerical controls. ***And what does one do to succeed in managing their staffing company in the new normal economy?***

We believe the solution is in applying the prescription discussed above through hiring and motivating passionate, creative, imaginative and an intelligent team. This, instead of having a loyal and obedient team working in a rigid system, who are afraid of being fired if they make a mistake and therefore don't contribute.

Our leaders need the management DNA to inspire their organization so they can anticipate and solve complex problems as viewed from the clients' standpoint, functioning in a consultative selling environment. This is more critical today as our industry has become more and more commoditized.

Unless we exercise creativity, who will win will continue to come down to only price, which only the large nationals can win due to their economies of scale. Small to mid sized staffing companies need to be more nimble, hire carefully, retain and motivate the best people to run a flat organization.

This can be accomplished in five to seven person teams, who are enfranchised, feel connected and informed by management. They can analyze situations and make rapid, yet well informed decisions and can take advantage of new situations in periods of accelerating change. They can often identify problems and present opportunities that increase their client's profit, sometimes before that customer even recognizes their evolving needs. This being the essence of a consultative sales effort.

Now let's try applying fast vs. slow thinking to staffing. One might think a 20% reduction in margins and a 20% increase in fill ratios would net the same margin dollars, but after doing the math it in fact requires a 25% increase in the fill ratio to offset lower margins. A company with $2.5 million in margin and $1 million in both compensation and fixed cost has a $500,000 profit.

If margins increased 20%, one might think a 20% rise in comp would yield the same 5% profit. Yet one could increase comp 50% and have the same profit when fixed costs remain steady. This could lead to a staggered comp plan, more richly rewarding and motivating top producers.

Lastly, one might assume a $10 million company growing by 10% per year vs. 8% might be worth more. Yet, if they did this by increasing profit 8% per year to achieve this growth, they would be worth almost $600,000 less vs. if they grew at 8% and maintained their margins.

Staffing companies have not always implemented modern management concepts as fast as industry as a whole, but the law of survival of the fittest still exists. As we have noted, the only thing that can't be copied is ones corporate culture and the winners will be at the forefront of applying these concepts. ■

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