

ADVISOR INTERVIEW

Are Layoffs the Answer to a Softening Economy?

Meridian Consulting Managing Director Michael Connor suggests otherwise, and shares his thoughts on today's e-business drivers.

By Jane Falla, Advisor Senior Editor

ADVISOR MEDIA recently spoke with Michael Connor, managing director of Meridian Consulting in Boston, which Connor founded in 1993. Meridian focuses on providing systems and process expertise for large-scale projects in three major areas: helping companies translate strategy into process (which Meridian calls implementation strategy), process improvement, and risk management.

ADVISOR: I'd like to hear some more of your thoughts on the capital deployment strategy you advise to clients, and why it works.

Connor: We have to do cost reduction differently than we are -- that's the notion behind a capital deployment strategy. Layoffs are usually for window dressing. The work itself doesn't go away. When you look at an organization, you must consider the value of the work that an organization does. No more than 20 to 40 percent of the work done by most organizations could be considered value-added. The remainder of the work is one of two things:

1. Process work. It's inescapable, but you should challenge it to see if it could be streamlined, automated, or outsourced. This is the necessary work that makes the company chug along. A lot of the ERP [enterprise resource planning] implementations have been predicated on process work -- very few focus on enhancing value work.
2. Beyond process work, a lot of work is compensating work designed strictly to fix problems with the process.

You have to deploy these against growth. The layoff problem is that you lose people, but nobody goes in to redefine the work. If you have fewer people doing the same work, it adds no value.

As a result, what happens to that work?

What happens is people hire back, and they make people do more. That adds more stress in the workplace. It gives no reconsideration to the value of the work itself.

Think of capital as fixed assets and also people. You want a return on your human capital, which is defining what your personnel do for your customers.

You need to redefine the jobs. Capital deployment asks, "What are people doing?" and you seek to create a higher proportion of value-added work. It's looking hard at how the business is using working capital.

I see a larger shift whereby people aren't clear about the rules of the game. I believe there will be a rebirth of strategy. People are looking to be relevant, and they need to know what the orientation of the company is. We've undergone an enormous set of shifts.

How do we begin to respond to these shifts?

You begin by questioning the value of the work. Pick the low-hanging fruit -- the stuff that's obvious and easy to stop. Go to your employees and say, "Tell me the things that you do in your job that make no sense." I call this vestigial spending -- spending that goes on for no apparent purpose.

But wouldn't employees be afraid to admit that some of the work they do isn't valuable?

People are past the fear. Everybody knows they're at risk. I think what people now understand is that it's a better thing to contribute, to be positive. Everybody wants to be relevant.

What we deliver is consensus. For anything to happen we have to foster consensus to make change. If we don't create it, then we'll have failure. We need the consensus that things do need to change in business. So people are being more cooperative than others. We have a saying that the answer is always in the system. What has to happen is somebody has to piece those answers together.

As companies review their e-business plans and consider the current economic climate, what are some of the mistakes, or traps, that you believe companies must avoid? Is this the right time to cut back on technology investments? Do you recommend holding off on certain e-business initiatives? Is outsourcing a viable option?

The biggest trap is believing that the technology is the answer. Companies have to commit to making changes and creating new ways of working. Companies mistakenly think that technology is their single biggest investment, and they're missing the fact that it's actually the minority investment.

It's also wrong to think that people don't want new technology. If you approach the technology in the right fashion, show the benefits, and, most importantly, show strong practical connections to the technology and the person's job, you'll find that those implementations will be very successful. You can botch your implementation by putting people in the position that they don't want the technology. What's important is having a very strong benefit case on how the technology improves business -- and as a result, we all keep our jobs. That's the key to success: showing how it all works together, and making sure everyone sees and understands the context of the technology.

Should companies reduce their technology investment?

There's an interesting school of thought that in fact the only way to cut costs is through new technology, so there should even be a heightened investment.

Telecom is a good example. For example, the unit cost per message is wholly dependent on having highest bandwidth, so many telecom companies over-invest in the technology. That's perfectly appropriate in this environment.

What we need to do now is to take a period to absorb all the technology -- not cut back on hardware and software, but increase expenditures on process and people.

Business investment has been at an unsustainable pace. The capital markets made that happen. A real value driver in the next two years will be the ability to show sustained investment.

What's your take on outsourcing and hosted applications?

The ASPs -- they're not winning business. It doesn't feel like the industry is there. It's attractive conceptually, but there's still a lot of insecurity about the companies themselves and their ability to deliver service level agreements.

Outsourcing is viable, but you have to enter into a negotiation with a strong business case. It's a funny business. There's enormous logic to it, but the whole pricing model is wrong. The only way you make money is at someone else's expense. Outsourcing seems like a real push/sell, and there's nothing really different with the hosted service providers. With the "pay as you go" model, there's a reticence to move large proprietary data sets because of concerns about reliability, and it isn't happening.

We haven't really figured the model out. I would argue for consolidation. Any industry where scale is important tends to consolidate.

You founded Meridian Consulting based on the premise that in the '90s, many companies felt dissatisfied with their experiences with the Big Five consulting firms. Do you think that's changed, and if so, why? Researchers report that companies are seeking consulting services now more than ever. With the less-than-stellar financial results of some of the "new breed" consulting firms, what do you think is happening in the industry? What's still missing?

The problem is around implementation. There are a lot of bright people, but how many are down-and-dirty, roll-up-the-sleeves-and-get-things-done types?

The industry is changing enormously. The industry growth has slowed down. There's no doubt that companies are seeking consulting services, but what do they really want? There's the whole notion that they want "the cream of the crop," which isn't necessarily about bright people.

We say you want people who are objective and who can be accumulators of information to build consensus. Many of the "new breed" consultants tied themselves to a subset of technologies -- to a phenomenon. They never developed as businesses.

Did that hurt the industry as a whole?

Some were a bad marketing exercise, and for all of us who showed up and worked hard -- it made consultants look too ridiculous. It absolutely hurts because it allows people to dismiss consultants.

There was an incredible arrogance around technology. Some consultants had the experience perhaps in the "e" but not in the "b."

To recast a bit -- what people have done is they broadened their mindframe at which they're looking at problems. They now realize that it's a broader set of problems involving elements of strategy, performance, process, and people. Companies are engaging firms who can address all the issues (especially the "b" first) and are benefit-focused.

We still hear a great deal about the technology-business disconnect, although many companies now do seem to grasp the concept that business process is what drives technology decisions (not vice versa). Do you still see this disconnect evident, and what do we do to address it?

I've seen examples where technology decisions drove the business process. The disconnect comes from backing into process.

Initial e-business initiatives were front-end, so they didn't touch process. Now we have the technology that represents the potential to knit together enterprises. There's a whole level of transparency to forge into each other's operations.

As it's moved forward, e-business has created enormous challenge around trust and transparency. This is about relationships, about agreements and the models we agree to create together. This is a social frontier. The technologies put you in the position to do it, but it depends on your ability to create confidence and your ability to be a good partner. You have to sustain open, transparent relationships.

Everybody's hit the pause button. Not because of the current economy -- that's only part of it. We've approached the relationship threshold, and the technology can support open relationships. That transparency is a frightening thing.

What do you believe are the biggest challenges that traditional companies and startups face as they evolve their e-business strategies and practices?

We're all facing a huge time of uncertainty. But a time of uncertainty is a great time of action. This is a wonderful period for differentiation -- for companies to look within and get clear about what they want to achieve and their values about how to get there. It's time to take advantage of the opportunity of uncertainty and chart a course.

Also, everyone's struggling for relevance. Companies have to articulate a plan for moving forward. That gives you momentum and propels you forward amidst the darkness.