The New Social Contract
Engaging Employees During a Downturn

As soon as any man says of the affairs of the State, “What does it matter to me?” the State may be given up for lost.

Many companies have taken strong steps to address the global recession: creating a plan, laying it out clearly, and assigning key roles and responsibilities to senior executives. Parts of those plans—especially the elements relating to cost control—are already in motion. But now the hard work begins.

The success of almost every corporate initiative depends on employee engagement—the desire and commitment of employees to go the extra mile. Yet many aspects of corporate recession-fighting plans can quickly kill the very engagement upon which a company’s survival and future prosperity depend.

The Great Recession has already claimed bonuses, promotions, salary increases, and stock options—the tools that companies typically deploy to secure employees’ effort. In many instances, it has also shredded the social contract between employees and employers, eroding the willingness of employees to exchange their effort and loyalty for compensation, recognition, security, personal growth, future career options, and pride in being part of a successful enterprise. To improve employee engagement, a new social contract must be written to be both affordable for companies and beneficial for employees—no easy task.

The Four Cornerstones of Employee Engagement
Employee engagement is built on four cornerstones. First, employees want to know that their company has—and their leaders collectively support—a vision and a strategy. Second, they want to have both a clear idea of their own responsibilities and the tools and authority to achieve them. Third, they expect to receive recognition and rewards for their workplace performance. And finally, they desire to work for a supervisor who understands and motivates them.
During the current recession, many companies have done reasonably well building and maintaining the first two cornerstones, which we call “objectives and aspirations” and “accountabilities and collaboration,” respectively. Senior leaders have rallied behind a vision and have been assigned the roles and responsibilities necessary to achieve it. For example, one Indian industrial-goods company recently required its senior-executive team to agree on role mandates for each team member and make weekly reports to the executive committee on progress in fulfilling the mandates. This process eliminated the ambiguity that had surrounded the senior leaders’ responsibilities in headier times and slowed decision making.

But in maintaining the third and fourth cornerstones—which we call “performance management” and “people manager capabilities,” respectively—companies are falling short, according to a “health check” of clients of The Boston Consulting Group. (See the exhibit below.) We believe that a new social contract will enable companies to recast these two cornerstones as needed to engage employees.

A New Social Contract

Employee engagement today rests on a company’s ability to reward the employees who matter most and to train managers to help their people through these times. But in order to achieve these goals, many companies will need to recreate and reshape themselves. Companies have too many employees in the middle of the organization and too many low performers. Consequently, organizations must flatten their pyramids and eliminate the bottom—the lowest 20 to 30 percent of employees ranked by performance. This bitter medi-

### In the Downturn, Companies Must Enhance Performance Management and People Manager Capabilities

<table>
<thead>
<tr>
<th>Question</th>
<th>Mean Score of Respondents</th>
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<tr>
<td>Is the company linking cost-cutting plans to its mission and vision?</td>
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<td>Do leaders fully understand the nature of the company’s costs?</td>
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<td>Are the company’s key strategic metrics still compelling?</td>
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<td>Are the company’s leaders engaged and prepared to meet the challenges of the downturn?</td>
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<td>Are the company’s leaders reaching out directly to line employees?</td>
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<td>Are the company’s leaders communicating with conviction and authenticity?</td>
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<td>Is the company using the downturn as an opportunity to resolve organizational and cultural issues?</td>
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<td>Are company leaders clearly accountable for delivering their goals?</td>
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<td>Do employees demonstrate feelings of trust and a spirit of pulling together?</td>
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<tr>
<td>Has the company thought through the new social contract?</td>
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<tr>
<td>Does the company have a plan in place for retaining top performers?</td>
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<td>Has the company rewarded top performers with major roles in downturn projects?</td>
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<td>Do employees feel recognized?</td>
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<td>Has the company systematically connected with middle managers?</td>
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<td>Has the company retrained middle managers in people manager skills?</td>
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**Sources:** Proprietary “health check” survey of 60 BCG principals, who were asked to respond on behalf of their clients; BCG analysis.

**Note:** Participating BCG principals rated their clients’ downturn efforts on a scale of 1 (low) to 5 (high).
Delayer. A company with more than eight layers and spans of control of fewer than eight employees will be sluggish and bureaucratic. For the typical organization, the middle is the best place to slim down. Companies generally need fewer—but higher-skilled—middle managers.

Delayering—if properly executed—will speed decision making and help improve employee engagement. Delayered organizations, with their leaner managerial ranks and their focus on work rather than coordination, eliminate activities that do not deliver value. The employees who remain respond positively to the reduction in bureaucracy and the increase in career opportunities.

Delayering should reduce management costs by 20 percent and create a more effective organization. Some of these savings can be used to reward and develop the employees who remain.

Companies that are delayering must take care to terminate lower-performing employees respectfully. The best employees know who the weakest employees are, and they will understand the need to delayer despite the painful consequences for those who are laid off. But if low performers are dismissed ruthlessly, the “survivors” will be unlikely to commit fully to the company.

Survivors need to believe that the delayering was necessary and that it was carried out fairly. Those beliefs can be shaped not only by hard facts—such as the amount of notice, the kind of support, and the size of the severance packages terminated employees received—but also by more qualitative and somewhat subjective judgments. Were the layoffs evenly distributed across all levels of the organization? Were promises kept?

One of the best ways to create a sense of fairness is to adopt principles and targets that guide the delayering process and to allow exceptions to be made only by the senior executive team. These principles and targets should cover head count reductions, spans of control, management layers, the retention of top talent, and the decision-making process.

Retain the top performers and identify the future stars. As part of delayering efforts, companies need to identify the top 20 percent of performers. Top performers should be rewarded with disproportionately high remuneration, accelerated career tracks, and special recognition. Many companies, for example, have narrow bonus ranges that do not accurately reflect the relative value of top performers. Now is the time to revisit those systems.

The recession also provides an opportunity for senior leaders to essentially recruit these high performers once again, making them feel secure in their future at the company and highlighting the risks of leaving. Frequent one-on-one conversations between senior leaders and high performers can be a powerful tool for retention.

Many employees whose performance ranks them below the top 20 percent could, with focused development, eventually break through. Performance management systems must be capable of identifying these diamonds in the rough so that companies can properly support and advance their careers. While these employees may not merit substantial financial rewards in today’s environment, they certainly could benefit from recognition and promotion.

Create flexible and variable cost structures. As companies delayer, they have the opportunity to create greater agility and flexibility. Their options include hiring a greater mix of contractors and temporary and part-time employees, delaying new employees’ eligibility for benefits coverage, and offering sabbatical options for existing employees. Some companies, for example, have started to offer two- and three-year sabbaticals and leaves of absence. In lean times, these programs can help control costs and reduce the need for layoffs, which can damage engagement.

An overlooked source of flexibility is a company’s former employees. Companies that handle layoffs fairly and respectfully can retain ties with terminated individuals and thus mitigate survivor guilt among the employees left behind. Former employees who were valued contributors could eventually return as contractors, freelancers, or even full-time employees.

Train leaders to communicate clearly and middle managers to coach. Top executives who have established a vision and agreed about what needs to be accomplished are not yet done. They must also be able to convey—with confidence and clarity—their vision for the company’s future throughout the organization. Training at the top can help leaders develop the skills and confidence to communicate effectively. If employees believe in their company’s vision—and if they see a light at the end of the tunnel—they will contribute much higher levels of effort, engagement, and performance.
Companies need to provide training and coaching to middle managers—they are the fulcrum on which employee engagement turns. For the majority of employees, their most important relationship in the company is with their boss. This relationship drives engagement more than any other factor—even money.

There are two critical types of training. The first is communication training in translating the overall vision into tangible departmental goals. Middle and line managers will need to be able to share the vision and execute plans to fulfill it. The second is coaching in giving and receiving feedback from direct reports, listening to employees’ concerns and recognizing their accomplishments, and fostering confidence in the future. Middle and line managers need to step up to the challenge of engaging the organization.

The New Social Contract

The Next Normal

The approach we have outlined rewards the best employees, removes the poorest performers, and treats the broad middle of the organization with respect while giving employees the tools they need to succeed. This new social contract—although not ideal—is realistic. It will allow companies to retain their top people and improve engagement with the rest. Companies that don’t write the new social contract with their employees will find that the market will do it for them.

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