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THE ECONOMIC SLOWDOWN

What has L&D learned from the economic slowdown?

Jeremy Blain, Director, International Partners Network, Cegos Group

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The mighty role models have fallen and the gurus' books remain on the shelves. It's time to be noticed – not for our size or our strategic bent, but for our contribution.

Graham White,
HR Director,
Westminster City
Council

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1. THE ECONOMIC SLOWDOWN AND L&D

The last three years have seen what many economists consider to be the worst financial crisis since the 1930's and a period of economic slowdown the world over. At the time of writing (February 2011), a fragile recovery is under way in many parts of the world, although this has also ushered in a period of fiscal austerity – particularly in the public sector.

As with any business function, Learning and Development (L&D) has been significantly impacted by this slowdown with both reductions (and then in some cases, a recovery) in budgets and a re-evaluation of its role within organisations.

Research from across the world points to this, with Western countries and their L&D budgets particularly hurt by the recession. For example:

- In the UK, the 2010 Learning and Development Survey from the Chartered Institute of Personnel and Development (CIPD), revealed that training budgets were cut in more than half of the 700 organisations questioned – up from a third that were cut in 2009.
- In the US, 2008 and 2009 saw double digit cuts in L&D budgets, although the roots of recovery are in place with companies spending an average of 2% more on training in 2010 than in 2009, according to the latest Corporate Learning Factbook 2011 from Bersin & Associates.
- European research undertaken by Cegos Group in March 2009, among L&D professionals from companies in the UK, France, Germany and Spain, revealed that training budgets in Europe appear to be holding steady. In the survey, 81% of organisations expected to sustain or indeed increase their investments in training during 2009. We are currently tracking these figures to see whether this is the case moving forward.

And yet, there are other countries who have been less affected. Figures from the Sao-Paulo based training association the ABTD (the Brazilian Association for Training and Development) reveal that companies in Brazil spend, on average, \$810 per trained head per year - on a par with the USA and Europe. And in contrast to other markets, investment in training in Brazil has been growing steadily during the past five years and is continuing to grow. These regional discrepancies and their impact will be discussed in section 6.

This paper will look at the impact the economic slowdown has had on L&D, how it has forced L&D professionals to look at the services they provide, and whether L&D is emerging weaker or stronger. The paper will also look briefly at some of the impacts of the recession on L&D by region.

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HAS THE RECESSION AFFECTED L&D UNIVERSALLY OR HAVE SOME COUNTRIES SUFFERED MORE THAN OTHERS?

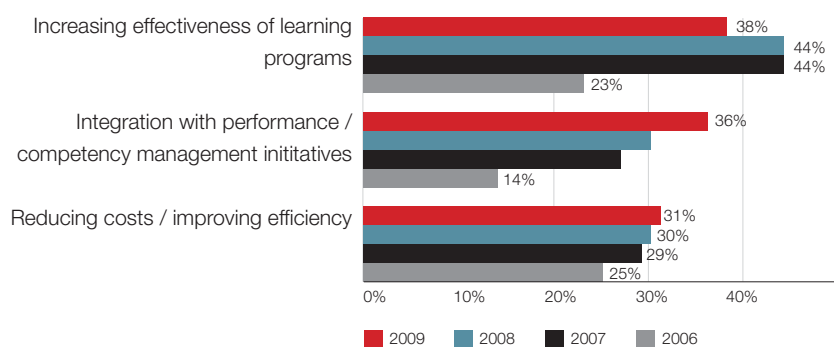


2. INCREASING THE VALUE & REDUCING THE COST OF TRAINING

Probably the single biggest focus the recession has placed on L&D is on its ability to provide value and be cost effective. In short, L&D has had to justify itself like never before.

Cost and a return on investment from training and development is now central to the L&D function – more so than it was, prior to the recession, in 2008. For example, Bersin & Associates' 2010 Corporate Learning Factbook found that one in three of people viewed cost as their overriding priority for L&D (see illustration).

So how has this focus on ROI and cost impacted training? This has manifested itself in a number of ways.



What is your overriding priority for L&D? 2010 Corporate Learning Factbook, Bersin & Associates.

2.1 New L&D Delivery Channels

This focus on ROI, aligned with other drivers such as new technologies and younger generations entering the workplace, is providing the catalyst to fundamental changes we are seeing in the way we deliver training to learners. Just as technology advances in computers and automation helped companies prosper following the recession of the 1980's, the same has been the case this time around.

Gone are the days of week-long training courses at country hotels. The emergence of e-learning in the early 2000's through to informal networks, virtual and mobile learning, and the rise of serious gaming have all increased the onus on L&D departments to provide highly targeted bite-sized learning which is cost effective and generates direct value to the learner. In addition, by accessing these training methods from their desktops, learners are also able to fit training around their day-to-day activities.

This focus on 'on the job training' to supplement traditional classroom methods is being seen throughout the world. For example, according to a June 2010 survey by Cegos Group, Spain and the UK are continuing to lead in their use of e-learning (with 56% and 53% of learners using it); and in Asian countries, such as Malaysia, 70% of training takes place on the job according to HR consultants, SMR Tech Group. Examples provided in previous Cegos Group white papers, such as the Shibuya University in Tokyo, also show the move towards more flexible, cheaper and higher value L&D delivery channels.

Perhaps the biggest challenge moving forward will be to align these new technologies with more traditional skills, as noted by Martin Baker, Founder and Managing Director of the Charity Learning Consortium.



In the future, the challenge for L&D professionals is to harness this ability for young people to combine using technology so readily, whilst developing old fashioned skills like leadership and communication, and transfer this into the corporate world.



Martin Baker, Founder and Managing Director of the Charity Learning Consortium



2.2 Focusing on Key Talent - The Importance of Diagnostics

This focus on cost and value is also resulting in a stronger diagnostics approach to learning where training is better focused and targeted at individuals and where each person's role is broken down into specific skills areas and competencies, prior to the L&D intervention being applied.

Is the level of skill or knowledge required correctly aligned to the individual's job role? Does the individual already have these skills or knowledge? These questions need to be more rigorously addressed – more so than perhaps they have tended to be in the past.

2.3 The Need to Measure

Finally, the added emphasis on cost and value has also increased the pressure on L&D to put in place effective measurement mechanisms. The 'conspiracy of convenience', as Charles Jennings, former head of L&D at Thomson Reuters, put it where "the training manager develops the program, delivers it to the business and no-one measures it...nothing really happens, but everyone's happy" is not going to cut it today.

Furthermore, as the Focus of L&D shifts to more informal learning environments, so the challenges of measurement will increase even further.

! KEY POINTS

The increased focus on Cost, ROI and Value, aligned with the growth in technologies and younger generations entering the workforce, is leading to a fundamental change in the way we deliver training.

A diagnostics approach to individuals' training requirements and a renewed focus on measurement is also coming to the fore.



3. THE IMPORTANCE OF HUMAN CAPITAL

Another key change in L&D exacerbated by the recession is the need to ensure there is a greater focus on the individual – a driver which is not just coming from market forces but from the individual themselves.

Graham White from Westminster City Council put it well in his quote at the beginning of this white paper when he insinuated that L&D and HR departments had spent too much time in the past focusing on elaborate methodologies, gurus and best practices, rather than focusing on the individuals who are the recipients of this training.

With the recession often requiring more productivity with less people, it's now considered vital for L&D to focus on the people element within organisations with human capital central to the balance sheet. Furthermore, with the recession having forced many businesses to downsize and in the process lose valuable knowledge and skills, it has never been more important to focus on the talent that remains.

The challenges, however, remain significant with many people still scarred by the last few years. The 2010 Employee Outlook Survey, for example, from the CIPD (The Chartered Institute of Personnel & Development) found that job satisfaction has fallen from 48 to 35, with younger employees particularly unhappy at work.

As our previous research has shown, there's also a growing gap between what learners and learning professionals want. For example, our May 2009 research found that half of employees across Europe want more e-learning and blended learning compared to 40% of HR professionals; 44% of employees want to see collaborative techniques developed compared to under a third (32%) of HR professionals; and face-to face learning is more popular among the human resources function with 42% of respondents wanting to see more classroom learning compared to 38% of employees.

The warning signs are clearly there, and there is need for urgent action-oriented action in regard to human capital which centres around the active engagement of staff and learners.

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The only thing worse than training your employees and having them leave is not training them and having them stay.

”

Henry Ford



3.1 Employee Engagement

L&D departments and senior managers need to keep employees engaged – quite a challenge when played out against a backdrop of job insecurity and pay freezes and the clear need to achieve more with fewer people. But the rewards for increased employee engagement are significant. A 2007 US survey from Watson Wyatt Worldwide, but equally applicable today, found that employees who are highly engaged are twice more likely to be top performers than are other employees. According to a recent Gallup Survey in the UK, however, only a quarter of employees are engaged (See Training Foundation 2010 White Paper: The Rules of Engagement).

3.2 Effective Talent Management

Linked to employee engagement is the importance of effective talent management strategies for the post recession-era.

Recessions bring with them a very different set of challenges in relation to talent management. While people tend to be more risk adverse and less likely to risk a job move during difficult economic times, the fact there is less fluidity within organisations can also lead to blockages and fewer opportunities to restructure and bring in fresh blood. Against this backdrop, it is essential that L&D plays a leading role in managing talent, keeping them engaged and ensuring that they have the right skills to progress.



The recession has meant that there is reduced attrition, but this also results in fewer internal promotions or transfers. In good times, HR leaders spent their time looking for people to fill many vacant roles. In the recession, HR leaders focused on identifying and developing high potential individuals and ensuring that the most appropriate assignments were available for them.



Pete Baker, Senior HR Manager,
Procter & Gamble, Asia



3.3 Management Training and the Need to Focus on Top Talent

This focus on human capital has also led to a growing acceptance that management skills are central to guiding senior executives through the difficulties of an economic slowdown and capitalising on the recovery. The need to develop emerging leaders and manage the talent pipeline in an economic environment of limited growth has seen a renewed emphasis on management training.

However, there is much which remains to be done in this area. A January 2011 Cegos Group survey found that one in four managers has had no management training across the UK, France, Spain and Germany.



KFC is a company that seems to have bucked the recession with a £150 million investment scheme for up to 300 new outlets in the UK by 2014 (an announcement made during the height of the recession in 2009). This is also resulting in increased employee opportunities across its non-fried, oven-baking offerings as well. The commitment to invest and grow in tough times sends off a strong signal to employees in regard to the opportunities it creates. The result? Increased employee engagement.

3.4 The Waking up of Leadership

The recession has made leadership wake up to the importance of human capital. Too often in the past, companies accepted nearly 50% turnover rates with people promoted early, not being effectively trained, and then deciding to go elsewhere. This casual losing of talent is no longer acceptable today as markets tighten and growth slows. Senior managers have woken up to this reality.

! KEY POINTS

The growing focus on human capital post-recession is manifesting itself in a need for more employee engagement and effective talent management programmes and renewed attention to management training. Management has woken up to the importance of its employees!



Times of recession really push HR leaders towards greater commerciality and prioritisation. Resources are limited and you have to know where to invest to deliver the greatest ROI on the human capital side of the business. A further honing of commercial skills is a real positive lesson from the recession.



Misty Reich, Vice President HR UK and Ireland, KFC



4. THE IMPORTANCE OF AGILITY

Another key lesson many companies have learned, including L&D departments, is the need to be more agile in one's operations and company structures.

If the recession has taught us anything, it's that the L&D department and company's L&D strategies will always be driven by the environment in which the business exists. Many companies, however, were caught out by the economic slowdown in that they had large and cumbersome structures, silos of information between their offices in different countries, and a training structure that wasn't closely enough aligned with corporate goals and didn't readily identify top talent.

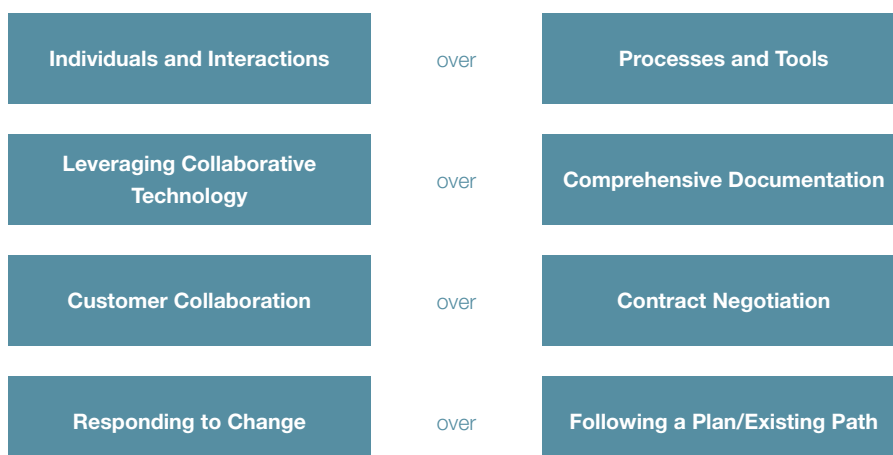
The post-recession L&D environment needs to be much more agile in addressing changing situations globally, such as greater integrations across organisations and a sharing of resources, the requirements for more cross-cultural skills as emerging markets become more prominent, and the continued embracing of new technologies.

One other issue worth considering here is whether large organisations will be flexible enough to embrace such change. Recent research from Cegos Group (May 2010) finds that it is actually the Small & Medium Enterprises who provide the most training today with 86% of employees in companies with between 250 and 999 staff receiving training compared to 64% for small business and 71% for those with more than 1,000 staff.

A possible conclusion we can take from these figures is that larger organisations are in danger of becoming more inflexible when faced with the acceleration of today's modern-day changes.

And the same could be said for HR and L&D professionals, as we discussed previously, with the growing gap between learners and learning professionals. Furthermore, the focus on informal networks, as demonstrated in the Agile Manifesto, group of software developers which originally formed in 2001 to define the approach now known as agile software development (www.agilemanifesto.org), is also seeing greater take-up among SMEs than larger organisations.

Whereas some larger organisations are bucking the trends in their attitudes to training and new training technologies (Petrobras, Apple, Microsoft or Hyatt, for example), too many large organisations are still reliant on systems and processes that prevent change and forward thinking, as illustrated in the Agile Manifesto diagram.



5. WHO HAS THE POWER?

The focus on human capital and increased need for agility in today's organisations leads us to a number of crucial questions in L&D today - Who has the power? Has the distribution of responsibilities been impacted by the recession? Have HR & L&D departments been marginalised or do they remain an integral element of the management team?

There's no clear 'Yes or No' answer to this question, although a number of observations can be made:

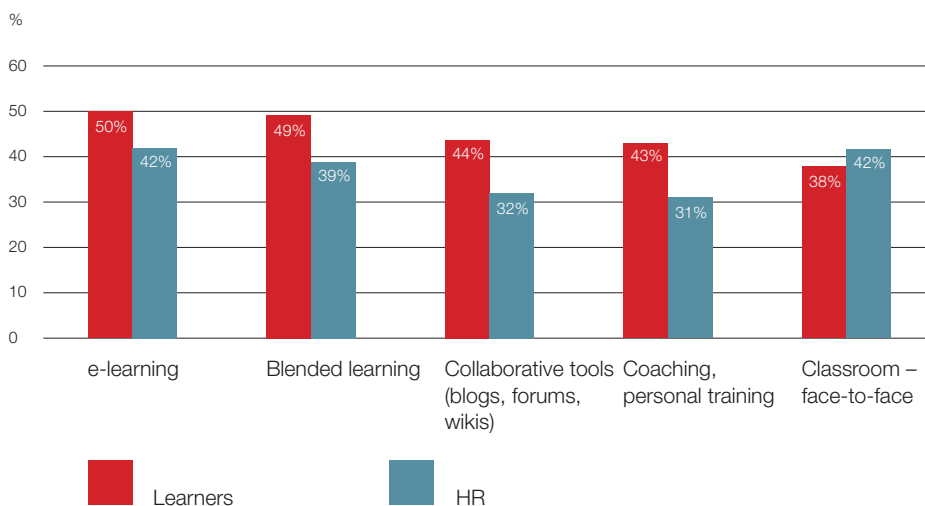
5.1 The Importance of the Learner

Firstly, recent developments have put the learner well and truly at the centre of L&D today.

Learners today are highly engaged in their training paths and motivated to develop their own skills – so much so that they are even willing to invest in their training themselves. A June 2010 survey from Cegos Group found that 76% are willing to give up their free time to undertake training and 53% are even prepared to part fund it.

Employees are more proactive in their quest for learning and the rise in technologies, informal networks and virtual learning are enabling them to do this. Just as if they were doing a degree at an educational institution, they want a clear career path and goals. L&D departments that ignore this do so at their peril.

On the one hand, this represents a massive opportunity for L&D but also source of discontent and disenchantment if L&D doesn't meet their needs. Already, there are signs of a gap between what employees like and want, and what HR and L&D professionals are actually planning to develop over the next three years, as our 2009 survey found (see illustration).



What learning methods would you like to see developed in the next three years?
Question for both HR and learners.

5.2 The Growth of Line Manager Responsibilities

The recession has also seen a growth in line manager responsibilities.

Line managers are the ones at the coalface who have to deliver the bad news about job cuts and pay freezes but must also try to keep employees engaged and motivated. From an L&D perspective, they can also ensure that what is learned in the classroom or comes out of the L&D department is implemented and practiced in the day-to-day working environment. Furthermore, with the emphasis on value and cost, they can also ensure that training is targeted in the right areas and that talent is managed most effectively. It is against this context that L&D managers are being given more responsibilities in L&D and are having greater control over training budgets.

It is important to stress, however, that in some organisations this highly important group is all too often being neglected and not given the attention it deserves. This can be due to people being promoted too early to management roles or not being given the necessary tools when they get there. Too often, for example, the real high performers - in sales, for example – meet and surpass their company targets without necessarily growing those same skills within their teams. This is mainly because they haven't been given the necessary training to do so.

The issue is today becoming most prevalent at first and second line manager level – often the front line to employees. Focusing on this priority group will be essential as organisations move forward on the road to growth.

5.3 The Importance of Management Involvement

What is also clear is that whether the organisation is going through a recession or has come out of it and no matter how big a focus there is on human capital, it's essential that learning links into a broader strategy and that there is a well-defined relationship between the corporate goals and the training of the people who are accountable for the results. This involves the management team.

Questions need to be asked, such as: What is our organisation's mission and vision? How do we differentiate ourselves from the competition? Where do we hope to be in ten years time and how can learning support this?

The recession has enabled successful organisations and their senior management to re-evaluate their operations, pinpoint where they deliver value, and identify the knowledge, skills and abilities required to deliver this vision. This requires some power lying with the management.



5.4 The Marginalisation of L&D?

So if there is so much power with learners, line managers, and senior management, where does this leave L&D? Is it being marginalised? Is a great deal of learning taking place without their direct involvement?

The answer is that if it doesn't justify its role and reflect the new realities, it has every chance of being marginalised. Similarly, if it embraces the new business world, it has a long and exciting future role.

L&D needs to stay in touch with the need to change structures and cope with emerging technologies. It also needs to be able to appeal to all age generations within an organisation and reflect fluid borders and changing cultures. It needs to appreciate that learning is continuous, social, informal and embedded in everybody's day-to-day activities and react accordingly.

L&D today needs to be a central element of the balance sheet and a core element of management decisions. In short, it needs to be at the heart of the organisations' commercial and operational strategy, delivering measurable ROI and continuing to prove and justify its high value to the business.

! KEY POINTS

Who was the power in L&D today? The Learner, Line Managers or Senior Managers. The L&D department must learn to adapt to these new realities or risk obsolescence.

6. REGIONAL PERSPECTIVES

Finally, there is the regional impact of the recession. Have some countries fared better than others and what is the impact of this on L&D?

Undoubtedly, it is the developed world and countries, such as the United States and Europe, who have fared worse from the recession. In this way, it has allowed the BRIC nations (Brazil, Russia, India and China) to catch up not just economically but in their approach to L&D.

The **International Monetary Fund's 2010 World Economic Outlook** highlights this discrepancy in economic growth. While advanced economies, such as the United States (projected 2011 growth of 2.9%); Japan (1.8%), the UK (2.1%) and Germany (1.6%) are likely to see limited growth, the same is not the case for emerging and developing economies.

Here, the IMF predicts that China will grow at 9.6%, India 8.4%, Russia at 4.1%, Mexico at 4.4% and Brazil at 4.2%. To continue these growth rates, these developing economies will need to shift their focus to attracting, developing and growth their very best people. It is only in this way that they can continue to growth their private sectors.

As mentioned in section 1, for example, the investment in training in Brazil is on a par with developed world countries. The same is the case in Asia where India, Japan, China, Oceania, South Korea, and other ASEAN territories, are all investing in their population's skills development to compete even more aggressively in the global market.

The Institute of Leadership & Management (ILM)'s 2008 **Global Management Challenge** report showed that Chinese companies benefit from significantly more in-house training than their Western peers. The report found that 70% of Chinese managers get in-house training programmes, compared to less than 55% in the US, 45% in the UK and 21% in France. This figure is likely to only increase post-recession.

It's quite possible, for example that executives who secure job transfers from London to Beijing might enjoy greater access to management training in China than they do in the UK.

It will be interesting to see how regional trends in L&D evolve in the coming years.



7. CONCLUSIONS

The recession has shined the spotlight on L&D like never before, bringing with it both challenges and threats.

If L&D and HR goes back to basics and focuses on the fundamentals - moving to integrate learning into a broader management strategy, ensuring that all its learning meets the value and ROI test and adapts to evolving technologies, and enables the growing participation of learners, line managers and senior management while, at the same time giving them the necessary tools to succeed, then it has a core role to play in the future.

In this way, it can achieve what has always been intended from L&D - adding value and driving competitive advantage for its employers.



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