Binge and Purge Search and Selection

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Volatility

It is a harsh reality that the global economy in which we exist is volatile and unpredictable. This economy, when coupled with increases in global competition and precarious global political circumstances, places entire companies and industries in peril. As businesses react to these constantly shifting conditions, owners, employees, shareholders, and investors alike experience rapid evaporations of wealth and swift accumulations of debt.

Under these circumstances, it seems apparent that prompt and restorative action is necessary. Frequently, cost-cutting appears as the most logical way to adapt to these economic conditions. As a significant percentage of operating costs lie in staff, organizations often react with indiscriminant layoffs. Conversely, when the economy rebounds, these same organizations will increase employment numbers and reconvene their recruiting efforts. This perpetuates the habitual and degenerative cycle known as *binge and purge search and selection*.

Short Term Decision-Making

Originally coined by Ken Daubenspeck in a presentation made to the Finance Leaders Association in 2001, *binge and purge search and selection* is a market supported employment theory that accurately describes the hiring cycle endemic to a turbulent economy.

This cycle is one that consistently repeats and manifests itself, and it is one that will seemingly continue unabated as our economy becomes continuously globalized and experiences further ups and downs. Between recessions, armed conflicts, disruptive innovations, and the death and birth of entire industries, it seems that executives will continue to make decisions based on short term value prospects, and manage their employees through *binge and purge search and selection*.

In the long run, this is a myopic perspective that contributes to a decline in an organization's bottom line. As Reis & Trout, authors of the bestseller Positioning said, "When companies live from quarterly to quarterly report, they create a recipe for trouble."

Indeed, this holds especially true when such decisions are made in regards to a company's most important asset—their people. In an article for Harvard Business Review, Roger Martin of the Rotman School of Management at the University of Toronto wrote that "Companies everywhere struggle with the management of knowledge workers. They compete fiercely to find and retain the best talent, often accumulating thousands of managers in the process… but inevitably, usually when economic conditions turn less favorable… in an effort to manage costs they lay off a large swath of them. Soon after, though, they're out recruiting again. This cycle is highly destructive."

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The destruction that Martin speaks of erodes the core of any enterprise; it leads to a reduction in service, diminishes quality, impacts employee trust and loyalty, and makes it difficult for a business to respond quickly to shifts in market conditions. Eventually those initial cost savings, which were achieved from layoff campaigns, dissolve—possibly leaving in its wake a drain on future cash flows, roadblocks to future investments, and an ultimately unstable enterprise.

While the negative effects of *binge and purge search and selection* may seem obvious, the benefits of such hiring practices often seem to outweigh the long term implications. Intuition tells an executive that by reducing headcount, a business will experience immediate short-term relief and an apparent positive effect on their quarterly report.

Under increased pressure—from both the market and their own organization—it is no wonder that (despite Reis and Trout's sage advice) many corporate leaders decide to move forward with organizational staffing strategies that involve *binge and purge search and selection*. In "Rethinking the Decision Factory", Martin cites examples of several large and well known American companies that have gone down this path. "General Electric, for example, conducted extensive management layoffs in the 1980's and early 1990's. After a gradual regrowth in its ranks, the company announced another round of layoffs in 2001. By 2007 the numbers were back up again—until the recession forced cuts once more. Colgate-Palmolive, MetLife, Hewlett-Packard, and PepsiCo, among others have all recently gone through the same process."

Further contemporary examples can be seen in the petroleum industry, a perpetually volatile space where recent drops in the price of oil have led to more than 100,000 announced layoffs. As an industry highly dependent upon a skilled workforce, the loss in productivity that results from such layoffs may very well have a negative long term effect on certain companies.

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The negative effects that indiscriminant layoffs can have on a company are also likely in the opposite case—when organizations engage in indiscriminant, or *binge,* hiring. In these circumstances, the role of *search and selection* is narrowed; focus is placed upon simply filling positions, and the potential effects on culture, employee loyalty, service levels, strategic initiatives, mid-level leadership, and overall productivity are not fully assessed. Employers, finding themselves left bloated with unstable, unintegrated, and disjointed organizations, then *purge* the organization with layoffs, only to prolong this vicious cycle and augment the damage that has already been done.

Need for Expertise

While this is not to suggest that a business cannot benefit from some waist tightening, it is certainly to emphasize that organizations must be mindful as they proceed—whether they are building, reducing, repositioning, or retooling their organizations. When it comes to hiring and firing employees there must be an honest assessment of an organization and a focused strategy, regardless of the scope of any action.

Whether hiring one, firing 1,000, or integrating a newly acquired organization, there must be discernment between a *qualified candidate* and an *attractive prospect*, and an understanding must be achieved—not just a determination if the prospect's skills, experience, and compensation matches the requirements of a specific position. This understanding is valuable only if applied to a foundation of deeper knowledge about the enterprise itself. That deeper knowledge must include an understanding of the organization's culture and a solid grasp of the leadership team's capacity. The leadership team itself must understand the collective professional capabilities, and the gaps, within its organization. Only when all factors are understood, can you determine whether an attractive prospect is in fact a qualified candidate.

For the same reason that it is difficult to be one's own physician, or attorney, it is also risky to try to provide objective organization or search and selection expertise from inside an organization. Many organizations, in relying on their own internal staffing departments, either ignore employee integration or lack the resources to emphasize employee integration, ignore the impact of binge staffing on organizational culture, and/or ignore all the time spent responding to a demand to inflate compensation packages in order to attract new employees.

The *search and selection* process requires an expertise in the *needs determination* process—a thorough examination of the organization, its leadership and the effects of the hiring cycle on employee population—and companies should expect executive search firms to provide this expertise and consultation.

About Daubenspeck and Associates

Daubenspeck and Associates, Ltd. is an international retained executive search firm. Based in Chicago and founded in 1982, Daubenspeck and Associates, Ltd. is a privately held corporation. Known for combining a global reach with a personal touch, Daubenspeck and Associates is an expert in executive search, cross-border appointments and culture match, diversity and culture sensitive selection and assessment, succession planning, and organizational development. A Top-40 Search Firm with executive leadership identified by Business-Week as one of the "150 Most Influential Headhunters in the World," Daubenspeck and Associates is a member of the Association of Executive Search Consultants and the IMD International Search Group.