The Recession: A Silver Lining for Corporate Recruiters

By Rob McGovern, Founder and CEO of Jobfox

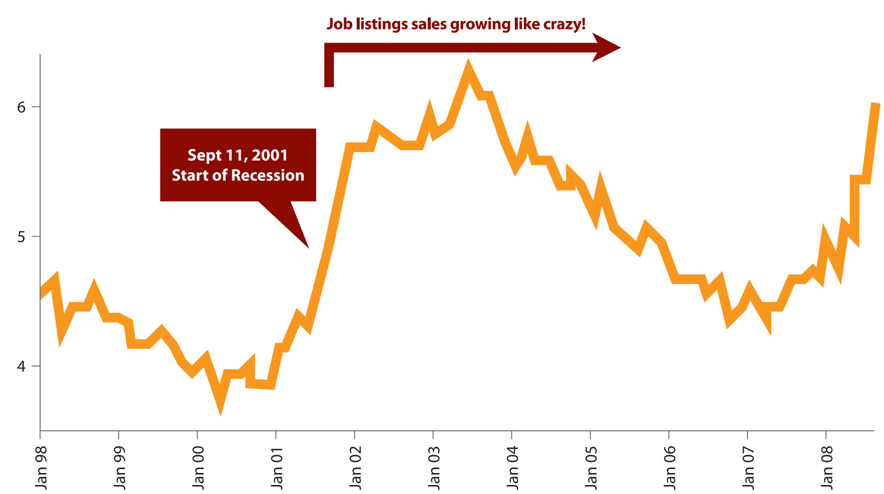
A Changing Playing Field

As talk of the economy takes center stage, one has the feeling that we're hanging on the last branch before the abyss. It's as if one moment we're in the longest sustained economic expansion in history. In the next instant,we're staring down the barrel of a full-out depression.

What is fact and what is fiction? What does it mean to be in a recession? It's not always easy to tell, especially in this energy-charged election season. It's not enough to say that the economy is slowing. It's got to be a full-out crisis to grab the news headlines. It's McCain's fault. It's Bush's fault. It's Obama's fault. Oh, whatever, let's just keep talking about it. If it bleeds, it reads, and the economy is the crimson topic of the day.

Fact: The U.S. economy grew by 2.8 percent in the second quarter of 2008.

As a corporate recruiter, you're undoubtedly asking yourself questions about the current economic climate. Will your company continue to recruit over the next year? Are your skills and talents still valued by your company? Is the "War for Talent" a thing of the past? What does a recession mean for me, exactly?



UNITED STATES UNEMPLOYMENT RATE
1998 – 2008

THE ONGOING WAR FOR TALENT

In 1998, McKinsey and Company described a United States workplace phenomenon as the "War for Talent," depicting the shortage of workers available to fill jobs. The company's study of 77 companies and 6,600 managers concluded that recruiting, retraining and inspiring talent were the most significant business challenges over the next 20 years.

Past is Prologue

Clearly, this is not the first recession we've experienced in this country. I was an eye witness to the last recession, in 2001, in my position as CEO of CareerBuilder. Our business and revenues were 100-percent tied to the flow of job openings. As a result, I had a front-row seat to watch the recession's impact on hiring activity.

To refresh your memory, the recession of 2001 was the result of two massive shocks to the economy:

- The bursting of the dotcom bubble.
- The tragic events on 9/11.

The fall of 2008 feels eerily familiar. The news of the $700 billion bailout and the gyrations of the global stock markets create the same surreal feeling that, overnight, the economic playing field has changed. In one important way, the anxiety related to the 2008 "economic crisis" is magnified because many people and companies have lost their institutional memories about life in a recession. It's been a while since we've faced a declining economy. In 2001, we were experiencing downturns every few years, so it had become old hat.

So, what did happen in September 2001?

It's true that we saw a huge pullback in hiring activity that month. Hiring freezes were declared, layoffs were instituted and many companies were furiously calling job boards to cancel contracts. At CareerBuilder, we saw a dramatic reduction in the number of job listings being posted to our site. Employers were simply saying: "We're done hiring for a while." For everyone in the HR industry, things looked incredibly bleak.

But, as they say, it's always darkest right before the dawn. As a job board, we went into October 2001 braced for the worst. Then, something unexpected happened. Hiring activity picked back up. We saw a flood of job postings from clients, along with a renewed sense of urgency to make hires. By December, we experienced the highest flow of new job postings in the history of the company.

Fact: In the 2001 recession, unemployment spiked to a 10 year high, but so did job listing activity.

Certainly, there continued to be economic struggles and challenges. As you may remember, the press called it "a double-dip recession". The unemployment rate continued to climb for the next 26 months, creating many hardships for U.S. workers. However, throughout this period, the number of jobs being posted by companies continued to grow at a fast clip.

GALLUP POLL

An October 2008 Gallup hiring poll of Americans who, based on what they know or have seen, report that their company or employer:

- is not changing the size of its workforce – 46%
- is hiring new people and expanding the size of its workforce – 31%
- is letting people go and reducing the size of its workorce – 18%

Three Recessionary Fallacies

You're undoubtedly wondering: "Why do employers post jobs on job sites when the economy is grinding to a halt?" I can assure you; these were real job openings, posted by real companies. It turns out that a remarkable amount of hiring activity happens during a recession.

Fallacy #1: Flat GDP equals weak economic activity

Gross Domestic Product (GDP) is a measure of economic activity in the marketplace. When the government reports GDP growth numbers, it tells us whether the economy is expanding or contracting. For example, a GDP of 0 or negative 1 percent does not mean that American companies aren't selling their products. Rather, it simply says that they're selling the same amount or slightly less as they did in the prior quarter.

Let's say you own a coffee shop on Main Street that has profits of $30,000 per quarter. You probably aren't going to hit the panic button if you only make another $30,000 or $29,700 the next quarter, reflective of a 0 or negative 1 percent GDP scenario. Let's take this one step further and suppose you lost your head barista. It's not likely you would implement a hiring freeze. You're short a key staff member whom is key to you earning your $30,000 per quarter.

This leads us to the second misconception.

Fallacy #2: Employers only hire when they are growing.

While it is tempting to try to correlate hiring activity to GDP growth — that employers only hire when they are growing — the truth is there is very little correlation between growth and hiring activity. The reality is that nearly all hiring activity is a function of churn in the workforce. Historically, economic growth is responsible for less than 6 percent of the hiring activity in the American workforce.

For example, let's say you're a company with 25 job openings. If your business is growing at the same rate as the overall economy, say 4 percent, then almost by definition only one of your 25 jobs is related to job growth. Why? In a rational world, your company isn't going to increase your overall headcount ahead of your 4 percent revenue growth.

What about the other 24 vacant positions? Those are the result of churn. Workers quit, retired, got fired, found a new job, went back to school or moved to another town with their spouse. Worker churn is the status quo in the modern American economy. In fact, the Bureau of Labor Statistics reports that the average length of time that a U.S. professional remains in his or her job is three years. That means that every year, 33 percent of our workforce moves on — for whatever reason.

RECESSION DEFINED

A recession is defined as a significant decline in economic activity lasting more than a few months and normally visible in real GDP.

The bottom line is that more than 90 percent of hiring activity has nothing to do with economic growth. It has to do with the amount of churn in today's workforce.

Fallacy #3: Job hopping "freezes" during a recession.

It's a commonly held belief that the job market "freezes" during a recession. In this fallacious scenario, every employee wants to hold his or her present position out of fear of diving into an uncertain job market. In other words, people won't venture out into the unknown when the job market is unclear. Is this true? Not if history is a guide.

Let's look at another example of a manager with a seven-person team that conforms to the normal bell curve of performance. You have a top performer, a No. 2 performer, a No. 3 performer, etc., all the way down to No. 7. During boom times, when increased headcount approval is easier to come by, the manager is more tempted to ignore performance problems (his sixth-ranked and seventh-ranked employees) by just adding a new hire. In short, problem employees are swept under the rug. However, the game changes when headcount is under close scrutiny. Our manager, as a result, has no choice but to jettison his poorer performers and seek more qualified hires from the outside.

It works the same for employees. Top performers invariably leave troubled companies during tough times. Like a star athlete who doesn't want to play for a losing team, a star professional seeks out opportunities to play for a more successful organization. After all, who wants their hard work and dedication during a recession to be rewarded with a pink slip?

Fact: Recessions cause more, not less churn.

Layoffs and Freezes

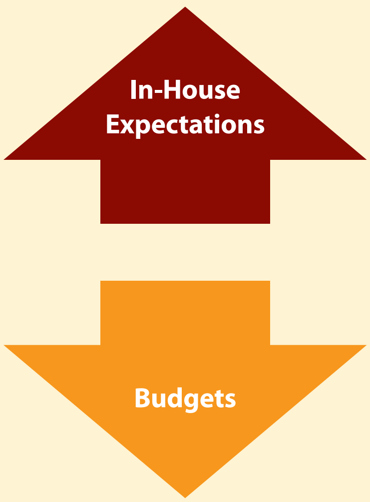
But what about the company that goes through a big layoff?

Early in my career, I had first-hand experience with layoffs when I worked for a Fortune 1,000 company that hit a rough spot. The company experienced several painful layoff cycles. In the typical fashion of a company in trouble, we cut ourselves to the bone. Company leaders said: "Get to the absolute minimum number of people we need to operate the business," and we dutifully cut down the size of our workforce.

Well, if you've already been through a recession, you know what comes next. Before the dust settled from the layoff, we started losing key people (welcome back, Mr. Churn). Many of them were key contributors who had started looking the moment they heard the "layoff rumors." Before the "hiring freeze" ink had dried, we were back to recruiting as normal. In fact, I remember this period as some of the most urgent hiring activity of my career.

IS DOWNSIZING SMART?

An Academy of Management Journal study (Casio, Young and Morris, October 1997) showed that downsizings had negligible impact on profitability relative to the size of layoffs. Further, the research did not find any evidence that downsizing companies were significantly able to improve profits.



Fact: Hiring continues, even during hiring freezes.

For most companies, a hiring freeze simply means that overall headcount must remain at a fixed number. For example, when a company with 1,000 employees announces a freeze, it is simply saying: "We must remain at 1,000 employees." If you apply the rule of 33 percent churn per year, this frozen company is still going to have to hire 333 people per year to maintain that freeze.

It's a nice fantasy, often held by CFOs, that headcount can be frozen to cut costs. But when the star sales person walks out the door, the key technologist calls it quits or the receptionist bolts, there's no way that CFOs are going to prevent hiring managers from making backfill hires.

During the recession of 2001, when I was the CEO of one of the nation's largest job boards, we heard the call for hiring freezes and then witnessed equal panic when recruiters realized they needed job candidates to keep the business running. Companies that cancelled job listing contracts in September were calling us back in November to reinstate their recruiting services.

Fact: Hiring freezes don't address the big part of the recruiting challenge: churn.

The Road Ahead: Our View

The United States economy is facing its greatest amount of uncertainty in recent times. Our CEOs, CFOs and HR Executives face the most important "what now?" questions of their careers, which naturally creates anxiety and uncertainty for those of us in the recruitment profession. Will it get better or worse in the next 12 months? Here's our view:

- After a period of reactionary cutting and freezing, hiring activity will return to a level of normalcy that closely replicates the hiring levels experienced in the first half of 2008. Hiring is largely a function of churn and we see no evidence that churn will do anything but accelerate in the coming quarters.
- Hiring budgets will come under tremendous pressure, with the big loser being spending on contingent recruiting. For most companies, the biggest hiring expenses are hidden in hiring managers' budgets in the form of payments to their local recruiters. We're skeptical that such expenses will escape the careful watch of CFOs and we expect contingent hiring activity to be greatly reduced.
- The next 12 months will be a period of doing more with less. There will inevitably be cuts in the size of recruitment staffs and contingent search will not be an option for most companies. We believe internal recruitment workloads will rise considerably after the reactionary period, as hiring managers race to backfill key positions without the aid of their favorite local staffing firm.

- If you're not a "safe" Fortune 1000 company, be prepared to lose and have to backfill many top performers. We expect "flight to quality," as the best people migrate to the most promising and safe employment situations. Small to mid-sized companies may experience the most difficult recruitment environments in recent memory, as we doubt hiring managers will want to settle for replacing A players with B players.
- We think the term "cost-per-hire" will rapidly re-emerge in the corporate HR lexicon. During the last recession, companies became very focused on using the tools and products that delivered the best cost-per-hire (CPH) results. Historically, Internet recruiting products offer – far and away – the best CPH; thus, we believe there will be an accelerated migration from high-cost (contingent search) to low-cost, Internet-based solutions.
- We believe a new cast of recruitment stars will be made in this recession. The recruiter that can nail that key hire and avert a hefty contingent fee, or one that can master new Internet recruitment methods that offer better CPH, will shine.

The recruiters that emerge victorious in this economic slowdown will be the ones that are the most resourceful, cost conscious and persuasive in their trade. The amateur hour is over. The serious-player era has begun.

Final Words

At Jobfox, we're helping our customers deliver new lows in CPH. We believe we've engineered a solution that allows a recruiter to do more with less. By using our matching marketplace, a recruiter can pinpoint the right candidate in a matter of minutes, all the while avoiding the need to spend time looking at those "5" ,"6" and "7" candidates that were jettisoned from the belt-tightening companies. At present we have more than 2,000 corporations using the service, and we think there's little doubt they'll be well positioned for the "do more with less" times that lie ahead.

About Jobfox

Jobfox is the Internet's fastest-growing career site for connecting working professionals with corporate recruiters. A first-of-its-kind capability, ***Jobfox Intros***™ gives candidates a "foot in the door" by making personal introductions with matching employers. With **My Jobfox Connections**™, employers maintain automatically updated talent networks for filling immediate hiring needs as well as maintaining longer-term relationships with top candidates. Jobfox provides recruiters with high levels of control to match candidates with specific job qualifications, helping companies save time and money. Visit www.jobfox.com or call 1.866.Jobfox-1 today. Jobfox also invites you to visit its career blog at www.bettermondays.com.

ABOUT ROB MCGOVERN

Jobfox is the inspiration of CEO Rob McGovern, one of the nation's leading career experts. McGovern is the founder and former CEO of CareerBuilder and the author of "Bring Your 'A' Game: The 10 Career Secrets of the High Achiever."