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Despite Cutbacks, Firms Invest in Developing Leaders

Companies Renew Focus on Employee Training, Betting That Strong Managers Will Help Through the Recovery

By DANA MATTIOLI

Despite layoffs and recession-starved budgets, many employers are investing in leadership-development programs, hoping not to be caught short of strong managers when the economy recovers.

Identifying and grooming leaders is important in good times, says Bret Furio, senior vice president of consumer lifestyle for Philips Electronics North America. "In times of crisis when the economy is struggling," he adds, "it's imperative."

Like many companies, Philips Electronics NV is trimming its training budget this year. A December survey of 117 large U.S. companies by Watson Wyatt Worldwide Inc. found 23% of respondents had recently cut training programs, and another 18% planned to do so this year.

But Philips will offer its annual Inspire program for 30 high-potential employees, stressing subjects such as business strategy and personal leadership. Participants are assigned to teams to work on a business project. Mr. Furio reasons that investing in leadership development will help Philips through the recession and the recovery.

In a nod to the tough times, Philips trimmed the budget for Inspire, eliminating one tutor and tapping more employees, rather than outsiders, as trainers. It's holding the program near Seattle and Boston, where Philips has many employees, saving the company transportation costs. Last year, one seminar was held in Huntington Beach, Calif.

Philips is typical of many companies, according to Bersin & Associates, a research firm that studies corporate training. Bersin estimates that companies cut overall training budgets 11% last year and projects another decline this year, based on a recent survey of human-resources executives. President Josh Bersin says the deepest cuts are in training for "soft skills" such as communicating with co-workers and conducting meetings. He says leadership development is taking a growing share of training budgets.

Yaarit Silverstone, global managing director for the organizational-effectiveness practice at consulting firm Accenture Ltd., says the emphasis on leadership development is a departure from the past. Ms. Silverstone says companies historically cut leadership-development programs during downturns, but the moves backfired, prompting midlevel managers and top performers to leave when the economy recovered. Now, she says, executives believe that without capable managers, "their ability to come through [the recession] in a healthy fashion is diminished."

Consider Estée Lauder Cos. The New York cosmetics maker Thursday reported lower sales and profit for the period ended Dec. 31, and said it would eliminate 2,000 jobs over the next two years. But Lauder is continuing its leadership-development programs, albeit more cheaply. Lauder typically sends 120 executives to a two- or three-week summer program at Vassar College. This year, it plans to send 60, for one week. In all its leadership programs, Lauder will emphasize innovation and managing change in volatile business conditions.

The budget cuts are hurting business schools, which say companies are sending fewer employees for executive-education courses and ordering fewer custom programs, which can cost hundreds of thousands of dollars. David Newkirk, CEO of Executive Education for the University of Virginia Darden School of Business, says the school began to feel the downturn early last year, as financial companies deferred decisions. He says few companies have dropped programs completely, but many are delaying custom program enrollment by six months or so as they watch expenses.

But leadership coaches say they're still in demand. Author and consultant Paul Hellman has been expecting a slowdown, but says December was his busiest December ever. Mr. Hellman, president of Express Potential, says employers know employees are less likely to jump ship during the recession, and are exhibiting a "let's make sure people are developed" mentality. He says he sees companies cutting costs by using more Web training than in past years; he hosted four "Webinars" in January, compared with six for all of last year.

That's the case at Canon USA Inc., which launched "Canon Academy" in 2008 to expand leadership development. This year, the camera and office-equipment maker is combining Web tools and instructor-led courses to offer training to more newly promoted managers than in the past. The program will touch on strategic decision-making and influencing employees. "Certainly times are tough, but we recognize that employee development needs to continue," says David Metzger, Canon USA's director of management development.

Some consultants see a renewed focus on leadership development, even at companies that are laying off employees. Patrick Sweeney, executive vice president of Caliper, a Princeton, N.J., management-consulting firm, says companies are trying to grab managers' attention and focus them on "keeping the ship afloat." Mr. Sweeney says much of Caliper's current work is geared toward identifying employees with high potential and developing their leadership skills.

Write to Dana Mattioli at dana.mattioli@wsj.com