Alternatives to Layoffs

People-Related Cost Reduction Opportunities

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About the Author

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Summary

Layoffs are a common way to reduce people-related costs. But many companies are looking for ways to reduce costs without losing good talent. Here are strategies that can be used in addition to or instead of layoffs and are proven effective to reduce costs. This report covers the following:

1. Overall Considerations
2. Types of People-Related Costs
3. Strategy #1: Alternatives to layoffs
4. Strategy #2: Involving employees in cost reduction
5. Strategy #3: Reducing HR costs

Overall Considerations

- **60% of costs are normally direct costs related to output.** While there may be some opportunities to get smarter with materials costs or eliminating in-process waste, you still need to spend in this area to drive the business. Typically, a decrease in demand leads to laying off excess capacity
- **10% of costs are typically senior management and indirect functions** such as finance and human resources. These can usually be benchmarked against industry norms to determine appropriate cost levels.
- **30% of costs are normally in support functions** – This is where the greatest opportunity for ongoing cost reduction resides. These functions will usually become highly defensive if questioned about their costs.
- **Execution and achieving results is what matters.** Don't get overly focused on identifying and planning cost reductions. Follow-through and measurement are important.
- **Communication to employees** about the need for cost reduction is essential to gaining buy-in and avoiding resentment.

Types of People-Related Costs

1. **Staffing Levels** – Having the right number of people to deliver needed output. For example, if eight people can deliver the needed output, you don't need nine people. Staff level drives payroll, benefits, and other overhead costs of carrying people such as office equipment. Layoffs normally address excess capacity staffing levels.

2. **Work Efficiency** – Streamlining the delivery of output.

   For example, excessive documentation, layers of approvals, and weekly meetings are often the cause of work delays. Reducing or eliminating delays improves efficiency and competitiveness. Staff positions, and often times management, add new requirements and process in an effort to gain control, add sophistication, and mimic "best practices" that actually only add delay and costs.

   For example, unnecessary reports and procedures cause knowledge workers to be more focused on process than on results. The challenge is to have the right level of controls to ensure adequate reporting and control, without it becoming excessive.

3. **Time on Task** – Maximizing the amount of time people spend on directly delivering output. Ineffective work practices divert talent from applying their knowledge and skills for value creation. This is especially important for strategic work populations. Four examples:

- In product development, you want your engineers to be fully focused on engineering work, not administration. Yet, I often hear from engineers that 20-30% of their time is spent on administrative tasks, not doing engineering.
- In accounting firms, you want professional staff doing accounting work, not administrative tasks.
- In manufacturing operations, you want manufacturing operators focused on direct production, not off-line activities.
- In service organizations, you want frontline people serving customers, not doing back office work.
- In such situations, it makes sense to add low cost support positions so that the direct value staff is most effective. Unfortunately, the support positions easily multiply and can even be seen as more important than the direct staff. Support functions can take on a life of their own, building complexity and sophistication to their processes where it is not needed and where it adds wasted time and resources, including excess staff.

4. **Culture** – Creating a mindset where people think of the business as their own.

   For example, profit sharing companies often condition their employees to identify waste because it affects their profit sharing payouts. At Wal~Mart, the cost mindset translates into linoleum floors and stackable chairs in their Bentonville, Arkansas headquarters.

   Companies that state cost consciousness as a value, but who demonstrate the opposite behaviors create cynicism. Example: The automotive company CEO's who flew to Washington in private jets to claim that they need a bailout.

- It's important to think of all cost opportunities, not just those related to staff levels.
- A long-term, sustained approach to maximizing return on people will focus on all four elements and ingrain them into the culture. This includes a continuous focus on having the right staffing levels, maximizing the effectiveness of key talent who drive value, streamlining delivery of output and building a culture of employee engagement.
- Other costs such as workers' compensation and disability are important to monitor and control, but are additional staffing costs.

Strategy #1: Alternatives to Layoffs

Why avoid layoffs?

1. Laying off people means losing the investment you've made in hiring and training. It will cost you more in the future to replace the lost people when growth resumes.
2. The impact of a layoff on the organization is never positive. It can be difficult to gain back trust and respect. Avoiding a layoff can improve long-term loyalty.
3. Layoffs include additional costs of severance payments, impact on unemployment insurance rates, staff time to deliberate and implement layoffs, plus any additional support such as outplacement or resume books.
4. If a layoff is used to weed out underperforming employees, then your normal management systems aren't working well.

Consider these alternatives to layoffs

1. Cut overtime
2. Cut or reduce travel, purchases of office supplies and equipment.
3. Reduced workweek. Nevada casinos recently instituted four-day workweeks as has Pella Windows, AK Steel, the City of Atlanta and various hospitals.
4. Eliminate or scale-down annual celebrations. You can still celebrate achievements, but be consistent with the cost-reduction theme.
5. Hiring freeze.
6. Reduce/eliminate bonuses.
7. Unpaid vacations. Dell is offering employees up to five days without pay through January. Honda is also offering voluntary unpaid vacations for U.S. employees.
8. Voluntary or enforced furloughs. The Seattle Times mandated a week of unpaid furlough for 500 workers amounting to $1 million in savings.
9. Salary or wage freezes.
10. Merit increase freezes.
11. Pension cuts.
12. Suspend 401(k) matches, as Kodak announced recently.
13. Offer flexible work schedules to reduce hours.
14. Cut pay by some percentage across the board. Motorola recently implemented salary cuts.
15. Schedule a work shutdown. Cisco planned a four-day end of year shutdown.
16. Exit incentives to encourage voluntary quits.
17. Offer additional time off instead of pay increases.

Strategy #2: Involve Employees in Cost Reduction

Why Involve Employees?

1. Many good ideas can come from employees because they see waste and inefficiency up close. Companies such as Allied Chemical, Coca~Cola and General Foods have saved millions of dollars in energy, time and materials costs due to employee input.
2. Most employees have far more control over expenses than revenue, so it makes sense to ensure that they are aware of the importance of cost reduction and to involve them.
3. Involving employees in cost control shouldn't be just a one-time event.

Ideas to Consider

1. Have each department sit down with employees regularly to identify cost savings opportunities.
2. Consider using a facilitator, as many times employees don't want to offend managers or supervisors. For example, in one company I know, employees were uncomfortable speaking up about time wasting project management processes because the CEO created the process and was notoriously defensive about it.
3. Choose to act on the opportunities that have the best combination of high payoff and low effort needed to implement.

What to focus on:

1. Energy saving ideas
2. Operational inefficiencies
3. Duplication and overlap of effort
4. Scrap
5. Internal reports
6. Unnecessary meetings
7. Opportunities to share best practices
8. Options to eliminate positions when people leave or retire
9. Ways to reconfigure jobs to improve outcomes
10. Benchmarking to identify opportunities through better practices

Strategy #3: Reducing HR Costs

Many companies can benefit by transforming their HR area to reduce costs and improve support to the business. Cost reductions of 25% are possible and the change in HR from administrative transaction processor to business partner significantly helps line managers.

1. Examine the possibility of self-insuring benefits such as dental or optical coverage.
2. Consolidate human resource or training functions in the field where appropriate.
3. Streamline HR processes and procedures such as the approval process for hiring, transfers, and performance appraisals.
4. Employee performance appraisals are generally more effective and less time-consuming if held on a quarterly or semi-annual basis, rather than annually.
5. Reduce duplicate paperwork and manuals.
6. Automate HR functions via internet applications, for example benefit enrollments.
7. Push more responsibility onto vendors.
8. Renegotiate vendor contracts.
9. Outsource selected HR functions such a payroll, benefits administration, training, or recruitment.
10. Restructure HR to provide new challenges and improve efficiencies through new HR structure, staff performance goals, and accountabilities.