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# EMPLOYMENT NOTES

Volume 11, Issue 1

A Publication of Claremont Management Group, Inc.

Spring 2003

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## “RIGHT-SIZING” YOUR WORKFORCE

### Understanding Your Staffing Needs

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- How important is this function to accomplishing our mission?
- How difficult is it for us to control the quality of this service?

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## *Thoughts from the Editor*

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This issue provides guidance on adjusting, “Right-sizing,” your workforce in light of the current economic downturn. Only two years ago, CMG was presenting seminars on how to deal with the tight recruiting circumstances at that time. The sudden change in the national economy is causing companies to take a different approach to staffing needs. It is still important to follow good management practices, regardless of external factors.

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Editor: David D. Schein  
Assistant Editor: Patty Elsner

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- How much does this function contribute to our bottom line?
- Does this function present special challenges for our business?
- Have we experienced special problems due to this function?
- Can we find a vendor who will provide this function for less than it costs us?
- Would our resources be better directed toward other functions?

To examine just one example, many organizations today depend on computers. An in-house MIS manager can be a great convenience. However, each person on the payroll represents liability for salary, benefits and overhead. In addition, does your organization have a senior manager who knows enough about computers to supervise an in-house MIS manager? Perhaps your organization has had trouble finding a competent and motivated MIS manager. Many organizations have experienced high turnover in such a position. If computers are merely a tool for your organization, and do not represent a core function, this is a function that might be productively contracted to a computer services company. Some organizations have found that they also gain because the contractor can support a wider variety of hardware and software than a single person.

Contracting certainly has its disadvantages. If you select the wrong contractor, you may experience poor service. There may be a time when the contractor is unavailable and you need assistance. However, this can happen with an individual employee as well. Balancing the costs of contractors with productivity requires management. Many organizations tell tales of the "contractor that got away." Suddenly, an invoice is submitted that is two or three times the expected amount. It is important to define the responsibilities of any contractor and to develop cost parameters. Contracting companies, while happy to have the business and the billable time, are equally eager to please their clients in order to receive future businesses. By setting the parameters and taking bids from several potential contractors, organizations should be able to find an affordable solution.

#### **Doing More with Less**

Another aspect of right-sizing analysis involves examining each staff position for possible automation, combinations of positions or different distributions of responsibilities. For instance, various organizations have discovered that they can have a receptionist perform clerical functions, thus avoiding one position. Some organizations have replaced their

receptionist with a voicemail system. While such moves may not save much money, the concept can be applied to a variety of positions.

During the current downturn, many middle management positions have been eliminated in an effort to balance responsibilities and costs. Assigning managers to supervise certain positions or functions is often a matter of habit or custom. Looking at the flow of work and then developing a new management model may help to create more productive organizations.

#### **Facing the RIF**

If, after completing the analysis described above, your organization decides that it is essential to reduce the number of employees, a RIF may be necessary. The next bit of advice sounds contradictory: Do not cut the wrong people, but terminate all the employees you need to terminate at one time. The first step is to develop a staffing grid. This will look like an organization chart, except it usually is less pyramidal in shape. This is a grid that lists each function that needs to be performed by employees. Other functions that should be performed by contractors have already been identified and should not be in the grid. Listed under each position is the number of employees required for that function. Where a hierarchy exists or is needed in that function, then the grid should reflect this. For instance, the target staffing for the accounting function might show a manager, two assistant managers, three accountants, and six accounting clerks. This analysis is often developed by a team, rather than a single manager. For each position, the incumbents should be listed by using the following decision rule: First, most critical skills; second, best performers; and third, seniority. The rationale for selection is that if a person performs a crucial function for your organization, and that person's performance is at least adequate, they will be retained. Next, within a group of employees, perhaps the accountants in our example, they will be listed in order of performance. Performance rankings must be based on effective performance evaluations. If an organization has not done adequate performance evaluations, then this will be difficult, if not impossible. In that case, the organization will need to rely on other criteria. In the example, if the organization presently has four accountants, then the accountant with the lowest performance will be terminated as part of the RIF in order to reach the target staffing of three. An exception might be if all four have good performance, and one of the higher rated accountants is expected to retire or leave the organization in the near future. If performance is

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equal, then seniority with the organization is used to make the difficult decision as to which employees will be terminated.

The reason for preference of performance over seniority is that this is the decision rule that should produce the best results for the organization in the future. Seniority is dictated in many cases by union contracts. However, with the low percentage of the United States' workforce that is unionized, this is rarely an issue. Administrative agencies prefer seniority since it is unlikely to violate the various legal protections afforded by the discrimination laws. Use of seniority is favored by such agencies even though employees in protected classes often have lower seniority and are more likely to be laid off. Consideration should include special issues like individual employment contracts, of course. Employees who are protected for a specific reason should be noted on the staffing grid. Special issues include: recent use of FMLA benefits, a recent Workers' Compensation claim, or a recent disability. If the employee has a special situation, then legal advice should be sought while proceeding with the staffing grid.

Another obvious result could be a "hole" in the staffing grid. Even though the starting point was reducing staffing, an opening may be identified. This puts the organization in the unenviable position of hiring for a position while reducing positions in another part of the organization. Before going outside the organization, an effort should be made to move a good performer who is about to be terminated into the opening. It is generally better to work with a known quantity than risk hiring a new employee.

#### **Employee Communications**

Avoid the rumor mill – announce as soon as you can. Tell employees the truth about the reason they were selected for employment termination. Telling employees they are being "laid off," without more, is very risky. If your organization begins hiring again, the poor performer that you laid off will be back at your doorstep. If it was performance related, tell the employee at the time of termination that they are not eligible for rehire.

#### **Downside**

Failure to follow intelligent rules on right-sizing your workforce can lead to employment discrimination complaints, lawsuits, and reduced employee morale. The cost in management time, legal fees and possible adverse decisions could be substantial. If

the cuts are too deep, your organization will be back in the employment market shortly after the RIF. It is costly to locate, hire and train new employees. Each new hire also involves a variety of risk factors, including the growing risk of negligent hiring complaints.

Dealing with downside leads employers to rely on release documents. When an individual is induced to resign in exchange for a severance package, they are generally required to sign a release agreement. However, if your organization has a severance policy in place, awarding benefits pursuant to the policy does not provide any additional compensation for the release. The employee will expect something that they would not otherwise receive as consideration for the release. With a RIF, the concept of severance is similar, but not the same. There are special rules for the administration of release documents, and legal counsel should always be involved in preparing such documents.

#### **Severance Benefits**

Organizations should follow their existing severance benefit policies if they have such policies in place. In the absence of an existing policy, the amount of severance should be developed based on available resources, prior severance payments, and customary payments by similar organizations in the same area. CMG clients use benchmarks of one to two weeks of severance pay per year of service. Some clients round the year up, other clients use completed years of service. Consistency is more important than the amount involved. Most organizations provide severance in addition to available unemployment benefits.

Outplacement assistance is provided to employees by some employers. It is especially helpful for employees who have worked for your organization for a long time and will have difficulty finding a new position. It is also helpful for employees who are inexperienced at job hunting. The outplacement counselor can serve as an objective third party in helping employees get started on finding a new position. They do not find positions for employees. The cost of such services varies by the provider and also by the level of services made available to the former employees.

#### **Conclusion**

The difficult process of right-sizing your organization requires thoughtful analysis. Done wrong, it can be an expensive lesson. Done right, it can help your organization survive a downturn and emerge as a more productive organization. CMG can help your organization with this process.

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