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Consultants to Business

Taking a Sharp Pencil to Employee-Related Overhead

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In tough economic times business decision-makers get caught between the hammer of decreasing sales and/or lower margins and the anvil of unaltered employee-related overhead. Conscientious, growth-oriented executives frequently report that applying their sharp pencil to the costs generated by the people who work for them is an agonizing task. Although we can't make this tough process easy or painless, the tips below should aid decision-makers and implementers of cost control efforts in the area of employee-related overhead by helping them take a systematic approach and manage with the appropriate level of sensitivity.

Let's acknowledge from the beginning that when it comes to employees we can't achieve the ideal of total objectivity. Experienced managers know that no matter how hard they try, applying quantitative systems and procedures to people decisions are, at best, an attempt to be fair and balanced. To be sure, it's worth it to make a reasonable effort at creating fairness and balance, even though we are never likely to know how close we came to the ideal.

Managing people with the appropriate level of sensitivity and consideration for each person is a lifelong quest. No management task will challenge you more, or advance you to the next level in this quest faster, than taking the time to make and review decisions about staff cuts and other employee-related overhead reductions. For a guiding principle, you can do no better than the golden rule: do unto others as you would have them do unto you.

Fairness and equality of opportunity are considerations many executives don't spend enough time thinking about when they get ready to make employee-related cuts. Fairness means, for the most part, being consistent from one person to the next.

To be fair in making decisions about staff cuts is to apply the same standards to the people who have been disagreeable (those thorns in your side) as you do to those whom you like and respect. Equality of opportunity, another concept that sounds simple but requires careful application, prohibits you from using stereotypes about people who are different from you when you make decisions about employees. Employees who are different from you because of their age, gender, sexual orientation, ethnicity, race or because they have a disability, are all protected in law from differential treatment. The failure to be fair and to apply principles of equality of opportunity frequently involve increased legal liability for organizations and, in some cases, create a financial risk for the manager(s) who made the decision.

Our top ten employee-related overhead cost-cutting strategies:

1. Holding managers accountable for devising and implementing plans to bring under-performing employees up to standard or, alternatively, embarking on a well-thought-out and carefully structured involuntary termination.
2. Tightening the process necessary for a unit to add a new position to its headcount by requiring justification using objective performance measures.
3. Reducing the use of temporary and/or contract personnel and distributing that work to "regular" employees.
4. Offering a voluntary staff reduction plan to as many employees as possible that includes appropriate incentives for employees to resign and/or transfer to a more secure position.
5. Imposing reductions to the number of supervisory positions, with corresponding salary decreases for employees who are giving up their supervisory responsibility.
6. Combining functions and/or permitting job-sharing arrangements to reduce the headcount in line with current and anticipated revenue.
7. Passing through a pro rata share of employee health plan premium increases.
8. Eliminating seldom-used employee benefit and/or employee support services such as dental insurance, employee assistance plans and the like.
9. Reducing company contributions to qualified plans, such as 401(k), perhaps in tandem with implementing profit sharing if the plan documents permit such a change.
10. Reducing human resources support functions by creating prioritized task lists and/or narrowing the window when employees may obtain assistance.

Before embarking on any of these steps, use the same preliminary considerations of fairness and equal employment opportunity described above and obtain human resources and/or legal advice as you would in making any business decision that involves risk to your enterprise. Be prepared for controversy and conflict, as well as impacts to staff morale. These are all likely consequences when organizations impose mandatory cutbacks. These effects are usually not life threatening to the enterprise, but, as with other employee attitudes, they require that managers be open to acknowledging that there are changed circumstances. Managers can assist "surviving" employees by keeping them abreast of financial and productivity improvements that the enterprise has been able to achieve because of the employees' response to unavoidable cutbacks.