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Experts advise analysis before layoffs

By Dann Anthony Maurno, Special to Mass High Tech

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At 35 percent of a company's operating expenses — according to PricewaterhouseCoopers — personnel costs are the obvious target for cost cuts, of which there have been more than 7,000 just in the major layoffs at Massachusetts-based tech companies reported this year. But head count is not the only way to shrink that percentage of the company budget, and in high tech especially, must be a last resort, according to experts.

"In a knowledge-driven organization, layoffs create exactly the opposite type of environment that you want to create," said Bentley University assistant professor Scott Latham. "Layoffs send the signal that 'we're foundering,' and the first thing marketable people like engineers, scientists and programmers do is update their résumés."

Latham's doctoral dissertation, "Examining Creative Destruction in the IT Industry," detailed how companies coped with the 2001-2002 recession. This time, Latham observed, is different; while layoffs make headlines, "Companies are opting for wage freezes, wage reductions, forced furloughs and vacations. At the end of the day, the message is, 'no one is getting kicked off the island, and we'll get through as an organization.'"

When money gets tight, there are no fewer than 15 measures to take before resorting to layoffs (list below), the Society for Human Resource Management (SHRM) found in a late 2008 poll of its membership. The three most common are attrition, hiring freezes and reducing contract labor. But the real opportunities for cutting labor costs while retaining workers are toward the bottom of the list.

Reducing work hours, at 17 percent of SHRM respondents, may hurt, but keeps all employed; in California, Gov. Arnold Schwarzenegger issued an executive order requiring the state's 235,000 employees to take two days off per month without pay, starting in February.

Salary freezes, at 3 percent, are comparatively uncommon, but effective if done well, says Latham. "Look at the Phoenix Media Group in Boston — it's not high-tech, but (its officers) took a wage freeze. It has to happen at the top. It's symbolic; you're saying 'stick with us and we'll take the brunt, but we need you to work on the product."

An informed decision

No one takes the layoff decision lightly, said Paul Hamerman, a vice president and principal analyst with Forrester Research Inc. in Cambridge. But, he noted, "a lot of companies don't have really good data on skills and competencies and performance, or that data is kept in rudimentary systems like (Microsoft) Word or paper documents." Thus companies make carefully considered decisions, but ill-informed ones.

Hamerman observed in a Forrester report on human resource management that the 'war for talent' is not the near-term priority; short-term strategies must include HRM analytics and HR technology strategies to align business and retention goals.

"Companies aren't aware that they have a way to make significant reductions in labor costs" without layoffs, said marketing manager of analytics Drew West of Chelmsford-based Kronos Inc. "Smaller, more accurate paychecks reduce the labor expense before reducing the labor force." Kronos offers work force management and time-and-attendance solutions for customers that include vehicle components maker Arvin Meritor Inc., tire company Bridgestone Corp., and Vermont-based Green Mountain Coffee Roasters Inc.

Kronos offers a workforce analytics diagnostic assessment for existing customers, using two years of historical data to identify excess labor costs. In most assessments, said West, there are no gross wastes of labor; rather, a large and aggregate waste from numerous sources, such as excess overtime in one department or an employee who habitually punches in five minutes late. The assessment reveals as well that supposedly unpredictable events like spikes in demand might actually be predictable, based on historical data. This enables a company to bring in part-time and seasonal help versus paying overtime premiums — like retailers at Christmas time.

Retailers are masters at tying labor spend to profits; they know full well the cost of one employee versus another and proactively optimize schedules to retain profits. Retailers have in fact been a particularly strong market for New Jersey-based HRM provider CyberShift, says CEO Robert Farina.

The leap from retail to high tech is shorter than it looks, observes Farina, particularly where hourly pay structures are used. “You’re matching skills, availability, workload, machinery, to fulfill an order in the least-cost way. If I have to pay Dan overtime, but Bob is a part-timer who hasn’t worked a full shift, that’s a lower cost option. Fundamentally, it’s about making better decisions, and when you have a downturn, having the tools to move people to other positions.” Reassignment is overlooked in larger companies, where departments or divisions have little visibility outside their spheres of influence. “Work force management (solutions) allow a broader view,” said Farina. “What is the workload across the enterprise, the region, and where can I mix and match?”

The payoffs of HRM can be quick and dramatic, says West of Kronos, because most corrections are easy and quick to implement. “A savings of one percent on a million dollar payroll is a pretty good near-term return. But it depends how willing a company is to make changes, and how quickly they do it.”

Kronos itself reduced its work force in early 2009 (Kronos was one of many companies that declined to discuss their own work force reductions). Even the most clever analytics cannot compensate for a drop in demand, and decreased demand at 64 percent was the major factor challenging companies’ financial stability, according to the SHRM study.

CyberShift said it has no plans to reduce staff. “We all got caught in pretty bad downdraft,” said Farina. But information is still the key to making the right decisions.

“For years HR pros have been starved for data,” says Forrester’s Hamerman. “But today they have better information delivery capabilities, in the form of metrics, reporting and trend analysis.”

Dann Anthony Maurno is a freelance writer in Salem.