

Flexible Rightsizing as a Cost-Effective Alternative to Layoffs

A Cost/Benefit Analysis Tool and Guide
for Human Resources, Organizational
and Business Leaders

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Alliance for Work-Life Progress is dedicated to advancing work-life as a business strategy integrating work, family and community. An entity of WorldatWork, AWLP defines and recognizes innovation and best practices, facilitates dialogue among various sectors and promotes work-life thought leadership.



As the parent organization of AWLP, WorldatWork is a global association dedicated to advancement of strategies and practices to attract, motivate and retain an engaged and talented workforce. Its focus is on total rewards, which include five components:

1. Compensation
2. Benefits
3. Work-Life
4. Performance and Recognition
5. Development and Career Opportunities.

WorldatWork has more than 30,000 members and customers worldwide who share this passion for total rewards and/or components of it. This includes specialists in work-life, compensation and benefits, as well as HR generalists and others who have an interest in education and networking. Founded in 1955, WorldatWork supports thought leadership, education, publications, research and certification, including the new Work-Life Certified Professional designation.

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Setting the Context

We're experiencing the most severe economic downturn since the Great Depression and your organization needs to squeeze every non-essential cost out of your business operations as expeditiously as possible in order to survive. Sooner or later, this leads to looking at reducing the cost of labor, the most expensive and (tantalizingly expendable) resource at your disposal. You pause, because you have invested years of effort and lots of money to attract, motivate and retain the workforce upon which you depend for the ultimate success of your enterprise. Your annual report or other external communications might even go so far as to declare that "people are our most important asset."

Caught between a rock and a hard place, you are now faced with the painful choice of who to keep and which valuable talent to let go. Or are you? Is this really your only option?

What Goes Down Is Likely to Come Back Up

If we believe the pundits and economic experts, this downturn is cyclical in nature. Sure, it's a much more severe nose-dive than anyone could have imagined, but there is no doubt that, at some point, things will improve. We just don't know when. Given the magnitude of the hole, since we must dig our way out on so many fronts, improvement will be very gradual. It is possible we may not recognize a full recovery until it has overtaken us, just as the official beginning of the recession was declared a year after we knew its name and dared to speak it out loud.

Cycles Offer Hope; Hope Creates Options

If we can agree that the world is in fact not coming to an end, and the economy will rebound, then this is the time to very carefully examine all the options available for reducing labor costs and still preserve our investment in the talent or "human capital" that will be critical to success in the future. We're witnessing an unprecedented number of options being considered and experiments taking place as organizations of all types and sizes are struggling to survive the storm. These innovative approaches aren't restricted to corporations or even private industry. Universities, school systems, state and municipal governments and even traditional institutions such as the Post Office are considering changes to core work practices and processes to help

them stay afloat in these turbulent times. We are using the term flexible rightsizing to capture the essence of this activity.

What is Flexible Rightsizing?

The term refers to one of the most sophisticated forms of workplace flexibility — the centerpiece of the work-life portfolio. Workplace flexibility is often associated with daily flexible scheduling of work hours, or broader career flexibility, but it remains a core business strategy that encompasses a great deal more. The strategic use of workplace flexibility creates optimally functioning work environments in which flexible ways of working and flexible management practices are leveraged to attract, retain and engage critical talent. Two decades of research show that flexible workplaces are as good for business as they are to the people who work there. Creating agile organizations that are resilient in the face of intense competition and unrelenting change is obviously more important today than it has ever been before.

As we face the conundrum of reducing labor costs while retaining and engaging a workforce needed for success when the economy recovers, we know it will take years to re-acquire key talent that is lost. At the same time, the morale and engagement of those who survive downsizing or rightsizing is guaranteed to decline as they try to pick up the work of their missing colleagues with no short-term hope of replacement. This "perfect storm" is an opportunity to utilize workplace flexibility as a critical management tool to position your organization for success in the midst of adversity that will not last forever.

Flexible rightsizing involves a variety of practices that have served many organizations as an alternative to (or a step to be taken before or in conjunction with) job cuts. Of course, some employers might need to do some of both, starting with flexible rightsizing techniques, and then moving to selective layoffs if absolutely necessary. Some common examples of flexible rightsizing options include*:

- *Furloughs* — voluntary and/or mandatory, time off without pay taken as occasional days or in chunks of time
- *Reduced work weeks* — voluntary and/or mandatory reduction in work hours and salary which may include temporary reduction in benefits, such as 401(k) matching funds

- *Sabbaticals* — voluntary and/or mandatory unpaid or partially paid leaves of absence or time off, usually for a specified period of weeks or months
- *Telework* — working some or all of one's standard hours from an off-site location (often at home), which is associated with increased productivity, job satisfaction, reduced utility and real estate costs.
- *Pay cuts* — voluntary or mandatory pay reductions for some or all of the workforce (often more significant contribution at the top ranks)

Providing guidance to your business/organizational leadership about the creative use of flexibility as a cost-effective alternative to layoffs in these challenging economic times is an opportunity for you to make an important contribution to what is most important to your organizations: ultimate success.

*See 'Flexible Rightsizing Best Practices and Examples In Action' at the end of this document for more information

How do I make the “business case” for considering flexible rightsizing options to my leadership?

Two decades of increasingly robust organizational research have established that the confluence of two major business drivers for building effective work environments that support work-life effectiveness and provide workplace flexibility:

- C-suite's need for their organizations to operate with agility, responsive to change, able to weather any storm [Conference Board Survey of CEOs]
- An engaged workforce craving a high quality of life on and off the job, resilient enough to take on any challenge, is the best recipe for organization effectiveness

The empirical definition of such effective workplaces is provided by a quick scan of the 20 years of longitudinal data contained in the National Study of the Changing Workforce, a nationally representative survey of American workers that is repeated every five years [citation here]. What differentiates effective workplaces from the other kind are these six characteristics (Families and Work Institute):

- Job challenge and opportunities for learning
- Supervisor task support (support to be successful at work)
- A climate of respect and trust between employees and their managers

- Job autonomy (optimal control over one's working conditions)
- Economic security
- Work-life fit

This powerful research, in conjunction with the application of Watson Wyatt's Human Capital Index study, shows that effective workplaces are associated with higher employee engagement, greater intention to stay, better health outcomes, greater profitability and the creation of 25 percent of shareholder value.

Having access to work-life support and flexibility increases employee commitment, engagement and intention to stay at the company, according to cross-industry research conducted by WFD Consulting. Employees who use either occasional or formal flexibility reported higher levels of engagement and had higher expected retention than employees not using flexibility.

Flexibility practices help mitigate some of the costs associated with turnover, health care, overhead, labor, quality control and legal fees. (Burud, FlexPaths “The Impact of Flexibility on Organizational Performance”)

- Layoffs do not save as much money as commonly believed. The real cost of turnover amounts conservatively to 50 to 75 percent of the departing hourly employee's annual salary and 150 to 300 percent of a salaried worker's salary, depending on industry. This includes direct and indirect costs of finding, hiring, and training new workers and lost productivity and inefficiencies, which are 80 to 85 percent of the total. Thus, a company that lays off 5 exempts and 5 hourly workers (paid \$80K and \$25K respectively) will lose approximately \$500K. (Kepner-Tregoe, 1999; Phillips, 1990) as cited in Burud (above)
- When an employee leaves, productivity is affected from the departure until a replacement is fully up to speed. Since in this environment, there often is no replacement for an indefinite time, the damage is intense and prolonged.
- The cost of turnover formula does not consider lost relationship capital held by the departing employee within and outside of the organization, or the cost of errors, internal inefficiencies, rising customer dissatisfaction or lack of progress on continuous improvements while a new person is learning the ropes. Or during the time no one is handling the ropes. (Burud)

In a 2009 survey conducted using Gallup criteria or Work+Life Fit:

- 94 percent of full-time employees are willing to save jobs by changing or reducing their schedule or taking a pay cut
- Nearly 8 in 10 employees would be willing to work a compressed work week, while nearly 60 percent would take additional unpaid vacation days or furloughs (several weeks off without pay)
- Nearly half (48 percent) would share their jobs with colleagues or take a cut in both pay and hours (47 percent)
- A little more than four in 10 would take a pay cut but work the same amount of hours or switch to project-based contractor status (41 percent)
- Just under a third say they would take a month or more unpaid sabbatical
- Type of workplace flexibility employees say they would like to use in the coming year:
 - 71 percent occasional opportunity to adjust their schedule
 - 57 percent want to work from a location other than their office
 - 73 percent want to make their work-life flexibility arrangement official
 - 12 percent want to work less hours

In a 2001 Layoffs and Job Security Survey conducted by SHRM, only 32 percent of the responding companies said that layoffs improved profits. Even massive layoffs in big companies did not produce increased earnings years later. Another survey of the S&P from 1982-2000 showed that profitability did not necessarily follow downsizing — even two years later.

How do I use the Flexible Rightsizing Cost/Benefit Analysis Tool?

Now that you are familiar with some of the compelling data that demonstrates the value and positive business impacts of flexibility, use the data to encourage your leadership to consider flexible work options as alternatives or in addition to layoffs. The Flexible Rightsizing Cost/Benefit Analysis Tool serves as a checklist to compare the direct and indirect costs (that are not always taken into account) of flexible rightsizing vs. layoffs. This can be used as a tool to systematically analyze costs and benefits in concrete terms as well as a discussion document to facilitate a dialogue with your leadership about

the most effective way to achieve a reduction in the labor costs while optimizing the retention and engagement of the talent that will ensure your survival.

This guidelines document and the checklist that accompanies it have been designed for Human Resources professionals, talent managers and business leaders to:

- Open and sustain a fact-based conversation with colleagues and leadership about creative options to address the cost of labor
- Provide a wide variety of concrete examples of flexible rightsizing options and practices being used today
- Provide HR professionals with a business-based tool that builds upon and utilizes their expertise and core competencies to leverage human capital
- Provide a counter-balance to the knee-jerk reaction to let go of valuable talent that may need to be rehired within a year or two
- Create a deeper understanding and respect for the business value of workplace flexibility, which can be one of the most important decision tools you have at your disposal in tough times like these

Guiding Principles and Success Factors

As you consider using this guide and tool in your organization to develop flexible rightsizing options, keep in mind the following principles to ensure success:

- Involve leaders/decision makers as early as possible in the process of making cost-cutting decisions, so that they will consider flexible alternatives to layoffs in order to retain critical talent and position the organization for recovery
- Realistically estimate how much money needs to be saved
- Avoid preconceived ideas about how to achieve a specific level of cost reduction
- Communication and transparency are key — keep employees updated about the state of the business and enlist them in finding creative solutions to cutting costs:
 - Ask for ideas and proposals that could cut costs and avoid layoffs
 - See how close you can get to needed cost savings with employee proposals
 - If voluntary proposals aren't enough, consider instituting across the board salary or schedule

reductions, additional vacation days and furloughs/sabbaticals that affect everyone equally — *remember, most people would prefer taking a reduction in schedule and salary than losing their job altogether*

- Experience proves that success is optimized by the existence of an infrastructure (flexibility policy, guidelines, procedures, training for both employees and supervisors) that provides equitable access to and implementation of flexible work arrangements as a strategic management and business tool

Flexible Rightsizing Best Practices and Examples in Action

The following flexible rightsizing best practices are concrete examples of what some organizations are doing right now to cut labor costs and preserve critical talent. Many of the options include unpaid time off and/or reduced schedules and salary — a big sacrifice for employees. However, the advantage for the organization is:

- Savings in salary and severance costs
- Reduced legal liability, legal or outplacement costs
- Maintained or increased productivity and employee engagement
- Retention of talent
- Sense of shared sacrifice
- Survival of the organization and its ability to respond and recover - a win/win for all stakeholders, including the customers who buy products and services

Reduced schedules, hours and salary

KPMG (UK)'s "Flexible Futures" — professional services firm KPMG has introduced an innovative flexible working scheme, designed to minimize the prospect of large-scale redundancies in the current recession and enable the firm to retain its talented people. The firm reports that over 85% of employees and partners across the firm are signed up for the scheme called "Flexible Futures." Every member of the UK firm — partner and employee alike — has the opportunity to volunteer to reduce their working hours on a temporary basis. The program options include a four-day week for 13 weeks and voluntary sabbatical of one to three months at 30 percent pay.

SKADDEN, ARPS, SLATE, MEAGHER & FLOM — This law firm is offering lawyers like Heather Eisenlord a year's leave at one-third pay, and she has jumped at the opportunity. She is planning to teach English in Sri Lanka and help bring solar power to remote stretches of the Himalayas, a once in a lifetime adventure for a valued sixth year associate who can count on being overworked until retirement.

LDV Vans (UK) — workers took a 10 percent pay cut and accepted a three-day week as well as had their bonuses canceled.

Norton Rose — London-based law firm is instituting a four-day workweek at 85 percent pay and/or a paid sabbatical for four to 12 weeks at 30 percent pay.

R.D. Jones — a Baltimore interior design firm instituted a four-day workweek after a two-week furlough and a 20 percent cut in salaries.

A Canadian United Steelworkers union — 600 salaried employees agreed to a four-day work week to avoid layoffs.

The Financial Times — is offering staff the chance to work three days a week over the summer.

The Sigma Group — this advertising agency is offering employees part-time hours and even monthly sabbaticals.

415 Productions — has offered either an overall five percent pay cut, or a four-day work week reflecting the appropriate decrease in pay.

Axiom Corporation — a five percent mandatory pay cut, plus an additional five percent volunteer pay cut is tempered with increased stock options.

Megavolt — agricultural machine remanufacturer — moved in October to a "shared work program" of three 10-hour days a week as a way to cope with the downturn. While workers keep their jobs, the lost 10 hours each week is nonetheless enough for them to be eligible for state unemployment benefits in Missouri, where Megavolt is located.

Corning — maker of glass for flat-panel screens froze hiring and cut discretionary spending. In the fall, it shifted many employees to four-day workweeks and began eliminating 1,400 temporary and contract workers.

Furloughs — occasional day off or chunks of time off without pay

Dell — nearing the end of nearly 9,000 job cuts, has asked employees to consider taking up to five days of unpaid vacation, is offering voluntary severance packages and has instituted a global hiring freeze.

Hewlett-Packard Co. — in addition to layoffs, cut salaries by 2.5 to 20 percent and reduced contributions to employee 401(k) plans. Last year, HP asked employees to take unpaid vacation days and extended a planned holiday shutdown to two weeks.

Arizona State University — mandatory furloughs for staff of between nine to 15 days by end of June. Estimated this will save \$25 million and avoid layoffs of 1,000 administrative personnel.

University of Maryland — 20,000 employees are required to take six days without pay based on their salary, which protects the lowest paid employees.

Ashland Inc. — two-week furlough, first time in history, for nearly all salaried employees in U.S. and Canada.

Clemson University — furloughing all employees for five days and set up a relief fund for low-wage employees.

Pella Corp — 2,400 employees will have one scheduled furlough week, every four to six weeks with state unemployment brought in to subsidize workers for days not paid plus four day workweek for about a third of its employees.

“Like many companies, Pella is looking to cut expenses because of the economic downturn. But instead of laying off more workers, the Iowa manufacturer of windows and doors is instituting a four-day workweek for about a third of its 3,900 employees. Chris Simpson, a senior vice-president at the company, acknowledges it’s an unconventional move. But Pella believes the economy could turn around faster than most people expect, and

it doesn’t want to be caught short of experienced workers. ‘Our contention is, consumer confidence will rebound,’ says Simpson. ‘If there’s a (government) stimulus package of some kind, we think people are going to respond.’”

Telework

How common is telecommuting these days? An i4cp survey conducted in early 2008 found that 38 percent of respondents said their organizations offered telecommuting, and 45 percent expected to see a greater use of flexible work arrangements in the coming year. This seems to be part of a longer-term trend. The number of employees working remotely at least one day per month increased 39 percent from 2006 to 2008, according to research conducted by WorldatWork and Dieringer Research Group.

Home Shopping Network (HSN) — has created a "work-at-home" telecommuting program that employs 900 telecommuters in three states. HSN made the move last year to bring its previously off shored call center jobs back to the U.S. in response to declining customer satisfaction ratings. The results have been everything HSN had hoped for: improved customer satisfaction, increased productivity and elevated status as an employer of choice; HSN says it has 16 applicants for every one job it fills (Albright, 2009).

Sun Microsystems — implemented an office consolidation initiative by allowing employees to telecommute, a move the company says has cut costs significantly now that 19,000 employees (56 percent of its workforce) work away from the office at least one day per week. The company reduced its real estate holdings by 15 percent in fiscal 2007 and says that expenses for employees who work from home at least part time range from 30 to 70 percent less than for employees who work on campus (All, 2009).

Other options:

Cisco Systems — offered the 8,500 employees it laid off in April an unusual deal. Instead of a severance package, affected employees can receive a third of their salaries, all benefits, and stock-option awards while working for one year at a not-for-profit group already associated with the company.

Flexible Rightsizing vs. Layoffs Cost/Benefit Analysis Tool

Payouts	Layoffs			Flexible Rightsizing			Notes
	Cost	Savings	Neutral	Cost	Savings	Neutral	
Base salary							
Incentive pay							
Severance							
Accrued vacation/sick pay							
Unemployment insurance							
Outplacement services							
Pensions							
401(k) contributions							
Benefits							
COBRA							

Related HR Impacts	Layoffs			Flexible Rightsizing			Notes
	Cost	Savings	Neutral	Cost	Savings	Neutral	
Benefit changes communications							
Administrative processing							
Unoccupied facilities							
EAP services							
Unemployment tax rate							
Legal fees							
Diversity representation							

Productivity (Efficiency)	Layoffs			Flexible Rightsizing			Notes
	Cost	Savings	Neutral	Cost	Savings	Neutral	
HR functions							
Revenue generating capacity							
Manager time							
Employee resilience							
Stress claims							
Workplace violence							
Burnout							
Survivor engagement							
Culture impact							

Flexible Rightsizing vs. Layoffs Cost/Benefit Analysis Tool (Continued)

Performance	Layoffs			Flexible Rightsizing			Notes
	Cost	Savings	Neutral	Cost	Savings	Neutral	
Innovation							
Employee engagement and morale							
Work overload							
Sales revenue							
Institutional knowledge							
Job skills							
Intellectual capital							
Client/customer retention							
Employer brand/reputation							
Stock performance							
Profitability							
Organizational learning							
Career opportunities							

Cost of Rehiring	Layoffs			Flexible Rightsizing			Notes
	Cost	Savings	Neutral	Cost	Savings	Neutral	
Recruitment – sourcing							
Recruitment – interviewing							
Compensation							
Training							
Administration							
Onboarding/Orientation							
Learning curve							
Reintegration							