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Reducing Costs of Employees

Creative Ideas for Reducing Employee Costs During Difficult Times



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In this issue of *People Insights*, we will be discussing several creative ideas to reduce employee costs during challenging times. As employees are often the biggest expense in an organization, cutting costs here can easily have a great impact on the bottom line. However, companies often think the only option is to reduce the workforce through layoffs to increase profitability. Although layoffs seem, on the surface, to be a fast and effective way to reduce costs, there are several downsides to utilizing this option of downsizing the workforce. Some of these downsides include:

- The layoffs cause major disruption to the business. Emotions are high and productivity goes down.
- Great skills and company experience are lost as part of the layoff process.
- Severance costs are a huge expense and although they are one time costs, often the economic downturn sparking the need for layoffs has taken a turn for the better by the time these severance costs have been paid for. Then, at that time, the company is faced with rehiring and retraining new employees making the original layoff seem fruitless.
- The upset that is caused in an

organization can be huge during a layoff period. People, especially the best performers, become insecure about their roles and the viability of the organization and begin looking for new opportunities.

- There are also the challenges for the people who remain with the organization. They often experience what is known as "Survivors Syndrome" whereby these people are taking on jobs of the others who have left and are working harder than ever for no increase in rewards. They often feel that they might have been better off if they had been laid off and received a severance package rather than continue to toil for your organization.

Given the challenge of layoffs, what are some creative ways to reduce employee costs to gain similar economic benefits. Here are some considerations:

- **Examine benefits costs.** Benefits are a huge expense for an organization. Work with your carrier to find ways to reduce costs on your benefits programs. Reducing coverage and usage limits and/or increasing deductibles and employee share of the costs may be considered.
- **Reduce the work week.** Consider reducing the work week and corresponding level of pay. A reduction of ½ hour per day based on a 40 hour work week is a 6.25% decrease in payroll costs. As not much business happens on a Friday afternoon, perhaps having employees work for 5 hours on

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How can your organization effectively implement these creative cost reduction strategies?

These are difficult issues to deal with and require the expertise of a Strategic Human Resources partner. Contact the President of **People Insights, Inc.**, Neil Zambik at 604-585-6608 to assist you with developing an effective employee cost reduction strategy that will be most appropriate for your organization.

People Insights, Inc. continues to provide strategic Human Resources and innovative People Development programs and processes for organizations.

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Communication is the key to successful employee cost reductions

Friday morning and be off by 1:00 might be a mutually beneficial option.

- **Pay Reductions.** If hours cannot be reduced due to business needs, consider pay reductions for all employees of around 5 – 10%. Remember, a 10% pay decrease results in the same cost savings as a 10% reduction in staff without the severance cost. The challenge with across the board pay decreases is that it affects lower income earners hardest as most of their income is used for basic food, shelter, and clothing needs. A more effective method would be a graduated pay reduction schedule whereby lower income earners receive a small percentage decrease while higher income earners receive a higher percentage decrease. Pay decreases do require the commitment and acceptance from employees to avoid potential wrongful dismissal issues. This method, does, however, get everyone involved in helping the company through tough times. Pay reductions should be accompanied with an expected time for reinstatement (i.e. one year) but with no promises.
- **Voluntary unpaid leaves.** You may wish to offer employees leaves of absences. Some people who have been working for many years might appreciate time off, albeit unpaid, to spend time with the family, work on a project, go back to school, or go on an extended vacation. In addition to the benefit of a break from work, they also have the comfort of knowing that when the leave is over, they can return to their jobs.

- **Early Retirement.** This may be an option, especially if the company has a good pension plan.
- **Job Sharing.** Some employees doing similar jobs may be interested in working half time and sharing a job with another.
- **Voluntary layoffs.** Some employees may wish to be laid off at a reduced severance package as they may have personal needs to deal with or are interested in a different career.
- **Input from employees.** Always ask employees to come up with creative suggestions on how to reduce company expenses.

CONSIDERATIONS

Many of these ideas may work much better than just considering laying off employees to reduce costs. They involve, for the most part, retaining employees and keeping their skills, abilities, and company experience, while reducing costs. The **key** to effectively making changes such as these is having a strong communication process in place. Management must be totally honest and open about the company's situation, including sharing financial results. This will help employees understand why the decisions are being made and they understand why their commitment is needed. True sincerity from all management is critical at this time.

As these changes are implemented, plan to find other ways to reward employees in the future to show your appreciation for their sacrifices. Although these are tough decisions, and employees will never be fully pleased with having to accept these changes, remember that most people are willing to make small sacrifices in order to keep their jobs.

