

Effectively Managing Workforce Costs in Times of Crisis

April 2020

As part of your organization's coordinated response to the COVID-19 crisis, the Chief Human Resource Officer should drive the development of a robust approach to assess and manage workforce cost reduction efforts.

As companies and organizations continue to adjust to the unprecedented economic challenges presented by COVID-19, there remains a high degree of uncertainty around how long the crisis will last as well as its full impact, both short- and long-term. Cost reduction is a top-of-mind concern for many executives right now, but no two industries or organizations are facing the same situation. Unlike a vaccine for COVID-19, there is no "silver bullet" to respond to COVID-19 in a cost-conscious manner.

Given the very real and personal impact that COVID-19 is having on employees across the country, as well as the significant portion of costs typically devoted to compensation and benefits, we recognize the critical role that the Chief Human Resource Officer, or CHRO, must play in partnering with the rest of the C-suite to formulate a strategic, organizational response to the crisis. Many organizations are already considering or enacting some form of headcount reduction, but any short-term cost reduction effort must be weighed against future demand expectations and talent management requirements and filtered through the framework of rapidly developing legislative relief efforts, such as the CARES Act. The CHRO must play a key role in driving this discussion, providing not just the "people perspective" on strategic decision making and engagement, but also the forward-looking data analysis to underpin contingency planning and workforce cost reduction efforts.

THE DIALS OF WORKFORCE COST REDUCTION



STRATEGIC GROWTH & INVESTMENT



PREPARATION & COST MITIGATION



VOLUNTARY DIRECT EMPLOYEE CHANGES



INVOLUNTARY DIRECT EMPLOYEE CHANGES



INVOLUNTARY DIRECT EMPLOYEE REDUCTIONS

MANAGING THE DIALS OF WORKFORCE COST REDUCTION

During this uncertain and swiftly changing time, CHROs must consider a spectrum of options to best manage labor cash flow. Workforce evaluations are intended to be iterative and should be made in close concert with other executive leaders, especially the CFO. We've developed a range of escalating options, or dials, available to manage workforce costs in times of crisis. Moving to employee headcount reductions ("Dial 4" below) is one of the most difficult decisions an organization may make, which is why we encourage the full assessment of the options from Dials 0 to 4 before moving to that difficult step.



Dial 0. Strategic Growth & Investment

For organizations with a relatively strong position it is important to maintain focus and prioritization through rapid change. Some companies may consider investing in strategic projects and shifting funding or adding resources where necessary. If your organization is in a strong position to add value in these difficult times, now may be the time to go on the offensive so that you can best serve your customers and stakeholders by growing operations and ramping up hiring where your business can make a positive impact. In recent weeks we've seen distribution companies accelerate innovative supply chain approaches to meet increased demand for basic needs, and construction firms shift resources to build the supplies needed to stand up temporary hospitals.



Dial 1. Preparation & Cost Mitigation

For organizations experiencing some slow-down in business from the greater economic impact of COVID-19, it is vital to prepare for the longer-term:

- Continue to invest in revenue producing activities.
- Identify areas of discretionary spending / hiring / SG&A costs that can be reduced.
- Identify any "soft" levers for workforce cost reduction (expenses, discretionary benefits, etc.).
- Pursue CARES Act loans / grants if eligible and explore tax forgiveness / deferral options.



Dial 2. Voluntary Direct Employee Changes (e.g., Leave, Part-Time, Early Retirement, etc.)



Dial 3. Involuntary Direct Employee Changes (e.g., Furlough, Compensation / Hour Reduction)



Dial 4. Involuntary Employee Headcount Reductions (e.g., Lay Off, Reduction-in-Force)

The actions available under Dials 2-4 should be considered together, as the decisions are more sensitive in nature and directly impact your organization's talent. However it's clear that for organizations experiencing significant adverse impacts due to the economic downturn, these more drastic measures may be required and the time to move from one dial to the next may accelerate. It is important to holistically assess the impacts of these changes before making any workforce decisions. When possible, we recommend establishing clear benchmarks or metrics that would trigger a particular workforce cost reduction effort and socializing these with leadership so they can prepare.

Assess and establish the range of feasible workforce cost reduction options from least to most severe:

- What are the pros and cons of each option? Do the options or applicability vary for different types of workers (e.g. exempt vs. non-exempt)?
- Are there critical workforce segments to be excluded or managed separately?
- Are there unique approaches that should be put in place given the nature of the COVID-19 crisis (e.g. a furlough with fully paid employee portion of medical benefits)?
- Develop the necessary employee cost modeling to assess options.

Determine demand / revenue benchmarks that would trigger workforce cost reduction activities:

- Consider establishing multiple benchmarks aligned to the range of cost mitigations identified under Dials 2-4.
- Socialize benchmarks and a range of cost reduction options with leadership for awareness.

Consider CARES Act financial implications of all potential workforce changes, in particular any workforce retention stipulations that are attached to available relief funding.

COMPANY ARCHETYPES AND THE WORKFORCE DIALS





While no two companies or organizations will face the exact same circumstances, we've developed a set of four broad archetypes to illustrate the range of impact of the COVID-19 crisis on companies today. Some organizations have immediately encountered steep revenue declines necessitating aggressive cost reduction measures, while others are struggling to meet a demand peak that may only be temporary. By overlaying these company archetypes on the cost reduction dials, we can provide further nuance in the recommended cost reduction activities as well as talent management best practices.

LOOKING AHEAD TO WHAT COMES NEXT

While the economic challenges presented by COVID-19 seem daunting, it's important to remember that there will be an end to this crisis. CHROs play a key role in preparing for the "bounce back" by future-proofing talent management and workforce cost reduction decisions made today. How will the organization protect critical workforce segments and institutional knowledge? What are the future costs of sourcing and onboarding new talent to replace employees lost through reduction-in-force? The robust planning effort and assessment of options introduced in this article will help CHROs provide this invaluable voice in a time of crisis management.

The CHRO approaches and considerations outlined in this perspective are also only one piece of the broader crisis management and strategic planning puzzle confronting executives today. Jabian consultants excel in helping our clients solve their toughest problems; if this article has prompted any ideas that you would like to discuss further, please know that Jabian is here to help.

For further resources, please visit: <https://www.jabian.com/planahead>.

RANGE OF SITUATIONS	A. CRISIS MODE <small>Rapid revenue loss with immediate revenue and cash issues</small>	B. RECESSION PROOFING <small>Expected decline in revenue and recession concerns</small>	C. PEAKING DEMAND <small>Due to pandemic with a readjustment after recovery</small>	D. GROWTH & BAU <small>Growth or BAU due to being in a position of power</small>
REVENUE PROFILE & FCUS				
	Immediate requirement to protect cash and profit, protection of employee base and customers	Get ready for a recession, cut unnecessary programs, tighten up discretionary spend, refocus	Sudden increase in demand, requiring additional resource / cost but anticipation of future decrease	Ability to grow throughout stages and maximize opportunities from a position of power
INDUSTRY TYPES	Travel & Hospitality, Restaurants & Food Service, Retail (with no / limited online presence)	Distribution, Construction, Retail, Consumer Goods, Communications & Media	Healthcare & Life Sciences, Online Services, Software & Technology, Financial Services & FinTech, Security	Healthcare Technology, Online Education, Cash Rich Holding Companies, "Recession Proof" Industries
WORKFORCE REDUCTION DIAL	2-4	1-2 (focused on cost reduction)	0-1 (focused on strategic investment and shifting priorities)	0
POTENTIAL ACTIONS TO TAKE NOW	<p>Accelerate assessment of workforce reduction options and cost modeling</p> <p>Closely monitor established demand / revenue benchmarks that would trigger cost reduction activities</p> <p>Prepare employee data and logistics that would be required to quickly take action if needed</p> <p>Pursue CARES Act relief funding if eligible</p>	<p>Assess indicators and prepare for recession as needed</p> <p>Implement any "soft" levers for workforce cost reduction and cuts to discretionary spending</p> <p>Assess implications of CARES Act cost reduction / deferral provisions (e.g. taxes)</p>	<p>Ramp up production / staffing in priority areas where feasible to meet demand</p> <p>Minimize costs in non-essential areas to free up resources for peak demand</p> <p>Develop protocol to quickly phase in new talent in short term while maintaining organizational focus</p>	<p>Continue to invest in revenue producing activities and strategic projects where necessary</p> <p>Potential to go on the "offensive" and make strategic resource moves for long-term success, e.g. M&A</p>
TALENT MANAGEMENT BEST PRACTICES	<p>Clearly communicate rationale and analysis behind any cost reduction actions</p> <p>Assess hiring freezes outside of mission critical areas</p> <p>Maintain proactive outreach and engagement for retained staff to foster loyalty</p>	<p>Define critical talent segments and competencies, and identify top performers to future proof organization</p> <p>Clearly communicate mission priorities and relation to employee's role in the organization</p>	<p>Explore innovative / virtual sourcing models and talent acquisition pipelines</p> <p>Establish short-term rotation / assignment approach to facilitate quick, short-term resource re-allocation</p> <p>Maintain balance between short-term needs and long-term career development</p>	<p>Define critical talent segments in priority growth areas to meet long-term needs</p> <p>Accelerate talent development / mentorship opportunities to build up leadership capability quickly, with emphasis on top talent</p>

Recent Federal legislation intended to provide relief to companies and employees should be closely evaluated and considered when making decisions impacting your workforce, as some forms of the available relief funding are directly tied to workforce retention and staffing levels.

FAMILIES FIRST CORONAVIRUS RESPONSE ACT ("FFCRA", PHASE TWO)

FMLA / Sick Leave: Broadly expands FMLA coverage for impacts stemming from the COVID-19 pandemic

CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT ("CARES" ACT, PHASE THREE)

Unemployment Insurance: Extended duration and eligibility for unemployment insurance in most states, along with increased funding of \$600 per week for four months

Paycheck Protection Program – SBA 7(a) Loan / Grant Expansion: Increased maximum loan amount and expanded allowable uses for small businesses. Opportunity for loan forgiveness based on expense eligibility and employee retention stipulations

Exchange Stabilization Fund: Low interest loans available to mid-size and large companies and industries particularly impacted by the COVID-19 pandemic, with conditions tied to the maintenance of certain employment levels

Descriptions do not constitute legal advice, and further guidance is expected by both the SBA and US Dept. of Treasury on the administration of the CARES Act.

For more information please visit: <https://www.sba.gov/page/coronavirus-covid-19-small-business-guidance-loan-resources>

<https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>

Or to read the text of the legislation, please visit: <https://www.congress.gov/bills/116/6201/20/FFCRA%20Phase%202> (FFCRA, Phase 2)

<https://www.congress.gov/bills/116/748/text> (CARES Act, Phase 3)

Please keep in mind that the recommendations and frameworks in this article are not meant to constitute legal advice, and of course any decision to move forward with workforce cost reduction actions or to leverage Federal assistance through the CARES Act, should be made with appropriate legal consideration.

About Jabian

Jabian Consulting is a strategic management and technology consulting firm with an integrated approach to creating and implementing strategies, enhancing business processes, developing human capital, and better aligning technology — ultimately helping clients become more competitive and profitable. Jabian blends functional expertise, industry knowledge, and senior experience to think strategically and act practically. It's a Strategy That Works®.

