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Thompson Technology:
A Case Study in Controlling Labor Costs
Scenario B: Flexible Scheduling

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Thompson Technology: A Case Study in Controlling Labor Costs

CASE ABSTRACT

Thompson Technology provides software solutions to the financial industry. From its founding in 1988 through the 1990s, the company experienced significant financial success, growing rapidly from a small startup to a publicly traded organization with approximately 800 employees. The recent economic recession and increased regulation of the financial industry, however, have caused Thompson to experience significant decreases in revenue for the first time. This case focuses on the organization's attempts to control labor costs by decreasing expenses.

The case begins with an overview of the organization and is divided into five scenarios. Each scenario includes separate questions (and debriefs) for undergraduate and graduate students to answer. This document contains only Scenario B: Flexible Scheduling. The scenarios are as follows:

- Scenario A: Restructuring After a Hiring Freeze

- Scenario B: Flexible Scheduling

- Scenario C: Hot-Desking

- Scenario D: Moving Employees to a PEO
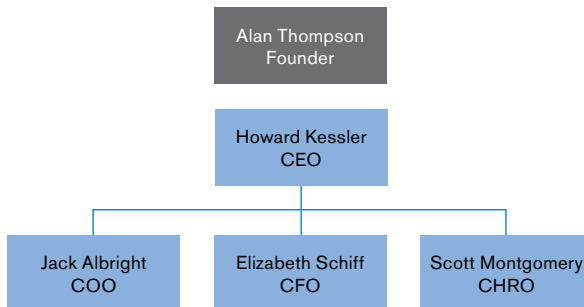
- Scenario E: Downsizing and the HR Department

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note

Teaching note:
In order to create a student workbook, please make one copy of pages 2 through 9 for each student.

Thompson Technology

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                    Alan Thompson
                       Founder

                    Howard Kessler
                        CEO

   Jack Albright     Elizabeth Schiff    Scott Montgomery
      COO                 CFO                 CHRO
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ABOUT THOMPSON TECHNOLOGY

Alan Thompson, founder of Thompson Technology, was always an idea man. Whenever something new came down the road, he jumped on it, took it apart, transformed what was there and created something different. He also embraced technology. Thompson was fascinated by its constant evolution, and he understood its creative possibilities well before the rest of us caught on.

Thompson didn't start his career in technology. As a teenager, Thompson worked at the local bank where his father was the branch manager. Banking helped pay his way through college, and although he never liked working there, Thompson admitted that it was the beginning of his career success.

Technology captured Thompson's imagination. He said his real career path started in the cluttered techno cave he carved out of a cramped space in his parent's garage. He set up his first computer on a makeshift table squeezed between the lawn mower and the garden tools. It was there where he tinkered with programming and computer code. He designed simple accounting software at first, but he didn't stop there. Each new innovation made his software better and faster. When he realized his systems were far better than anything available in the banking industry at the time, he knew he was onto something. In 1988, he left banking and launched Thompson Technology. By the mid-1990s Thompson Technology was a major player in the design and maintenance of specialty software for the financial industry; Thompson products were at work behind the scenes at most major financial institutions across the U.S. and Canada.

The early years of Thompson Technology were characterized by innovation and growth, and it was soon known as a great place to work. When the company grew and prospered, employees did too, with generous compensation and benefits that rewarded creativity and employee engagement. When 1999 turned to 2000, Thompson Technology greeted the new century with enthusiasm; it seemed that there wasn't a dark cloud on the horizon.

Thompson Technology made its first public stock offering in 2006. By then, the company had 800 employees and new headquarters in Denver, Colo. As majority shareholder, Alan Thompson maintained control of the company, but he turned the day-to-day management of the organization over to Howard Kessler, Thompson's new CEO. Kessler came to the company with a strong background in international finance, and Thompson believed Kessler was the ideal choice to expand the company beyond North America.

Thompson Technology began to change with Kessler at the helm. He hired Jack Albright as the new chief operations officer (COO), and Elizabeth Schiff became the new chief financial officer (CFO). Scott Montgomery remained as Thompson's chief human resource officer (CHRO). Besides new management, other things were different as well; now there were shareholders to satisfy.

In addition, the company underwent a major reorganization in 2008 that realigned departments and reassigned a number of employees. Some employees saw the reorganization as an opportunity for growth and new energy, but not everyone was happy.

It wasn't just Thompson Technology that was changing. In 2008, the U.S. economy went into a severe recession, and the U.S. Congress responded with increased regulation and stricter scrutiny of the nation's banks. As the financial industry adapted to the new banking practices, demand for Thompson Technology software dropped precipitously. Sales plummeted, and Thompson Technology's culture of easy profits and sky-is-the-limit employee perks morphed into a new era of cost containment and belt tightening. Every department was affected, but employees were hardest hit when a financial analysis showed that labor costs were not sustainable. The year ended with the implementation of a companywide hiring freeze to curtail labor costs and, it was hoped, squelch the need for more drastic measures.

The hiring freeze was successful in reducing the number of employees. By late 2010, business in the finance industry had evened out, but Thompson was still not on easy street; increased competition in the marketplace caused sales to remain flat. Thompson's stock price was falling. To address those issues, upper management held an intensive three-day strategic planning retreat off-site. The retreat included Kessler, Schiff, Albright, Montgomery and all the functional area directors. Before the retreat, the management teams spent many hours cloistered behind closed doors analyzing the various departments' strengths and weaknesses and assessing budgetary and revenue forecasts. Kessler mandated that everyone come to the retreat prepared to make some difficult decisions regarding Thompson's long-term future.

Managers armed themselves with statistical data to defend the viability of their departments.

Employees were on edge, and rumors were rampant because of the uncertainty about the future and the changes that might occur as a result of the retreat. The biggest worry was that the organization would downsize U.S. operations and move jobs offshore, even though Thompson took pride that its products were built and serviced entirely in the U.S. When managers returned from the retreat and remained tight-lipped about the results, employee tension increased as everyone waited for an announcement. Finally, on a Wednesday afternoon, Kessler sent the following e-mail to the staff:

> All Staff:
>
> As you are aware, senior managers spent several days in important strategic planning discussions regarding the future of Thompson Technology. It is important that we continue to meet the needs of our shareholders, our customers and our employees as we move through these difficult times. Keeping those needs in mind, we recognize that some changes are necessary at Thompson Technology. For information sharing and discussion of our strategic initiatives, all employees are asked to meet with their area directors on Friday morning at 9:00. Further information will be shared at that time.
>
> As always, thank you for the good work you do and for the outstanding service you provide to Thompson customers. Thompson employees are the foundation of our success.
>
> Howard Kessler
> CEO
> Thompson Technology

The rumor mill was instantly at full speed as heads popped up from cubicles and employees clumped together in speculation. Staff meetings were common at Thompson, but there had never been anything like this before.

"What does it mean?"

"This must be a major announcement. Why else would all departments meet at the exact same time?"

"Have we been bought out?"

"Are we shutting down?"

"I didn't think things were this bad!"

Productivity plummeted. Except for a lot of talk, the employees accomplished nothing from the time they received Kessler's e-mail to 9:00 Friday morning.

9:00 Friday Morning

Employees met with their area directors as scheduled. Some arrived early, but in contrast to the usual staff meetings, nobody arrived late. Coffee service at staff meetings had been discontinued months ago as a cost-cutting effort, so when coffee and pastries were set out for the morning meetings, it only raised anxiety levels. Speculation continued as employees filled coffee cups and forked pastries onto paper plates. At exactly 9 a.m., everyone dispersed to their designated meeting areas. In conference rooms across the company, chairs were full, speculation ceased and employees waited.

Of course, things are never as bad as rumors suggest. In most areas, relief could be seen in employees' faces as directors reiterated the organization's commitment to employees, but the directors left no doubt that the future would be different. Managers had agreed that further cost-cutting measures would have to be taken. Employees were told to expect changes in working conditions as the company tried to cut labor costs by 10 percent. In addition, efforts would be made to increase sales revenue by exploring new markets. But for now, at least, the company was ready to move forward with no plans to lay off employees.

SCENARIO B: FLEXIBLE SCHEDULING

Players:
Scott Montgomery, CHRO
Walt Derringer, department supervisor
Alex Harper, department supervisor
Paul Paolilli, employee

Montgomery analyzed Thompson's absentee levels in preparation for the strategic planning retreat. He knew that because of the hiring freeze, some employees' workloads had increased as they absorbed additional work left by departing staff, and he worried that employees were responding by calling in sick. Not only did his analysis support his assumption, but it indicated that Thompson had an absenteeism problem far greater than he had expected.

Although it is difficult to quantify the cost of unhappy employees, Montgomery was certain absenteeism was adding to overall labor costs. There were the obvious costs of hiring temporary labor and paying the nonworking employees. Absenteeism caused additional expenses in productivity losses because employees try to cover for the absent employee, or the work simply goes undone. Montgomery believed that if absenteeism could be controlled, Thompson could save significant labor costs.

After the retreat, Montgomery met with some area managers to discuss the possibility of implementing flexible work schedules and telecommuting. His proposal met with some skepticism, but he reminded managers that productivity could actually increase and absenteeism could decrease if employees had the flexibility to manage their family needs.

His plan would change the standard 8 a.m. to 5 p.m. workday to a 12-hour flex schedule from 6 a.m. to 6 p.m. Employees would still work a regular eight-hour day, but they would have flexible start and stop times, with start times between 6 a.m. and 10 a.m. and stop times between 2 p.m. and 6 p.m. All employees would be on-site between the core hours of 10 a.m. to 2 p.m. In addition, some employees could occasionally telecommute when it was appropriate for their job assignments.

Some managers were hesitant because most had never supervised employees who worked off-site or had varying schedules, but with Montgomery's promise of HR's support, most managers agreed to give it a try. It was decided that the program would be launched in 60 days. Montgomery told managers that he would get back to them the following week with guidelines and a training plan for managing flexible employees. In the interim, he asked managers to send him recommendations for employees and jobs suitable for telecommuting.

"What d'ya think, Alex?" asked Walt Derringer the next morning as he folded himself into the chair next to fellow supervisor Alex Harper's desk. "Now it looks like you and I have a 12-hour day supervising staff, while they can come and go whenever they please. What kind of a crazy idea is that, anyway?" Walt grumbled.

"Well, I think we have to give it a try," Alex said as he leaned back in his chair and pushed away from his computer. "My staff has been through a lot lately, and they work pretty hard. Maybe this will bring back the spark we need to get things going around here again."

"Yeah, well, I've got some deadbeats that can hardly get anything done now. I don't see how this is going to be any better. Telecommuting! That's just an excuse to sit home in your pajamas and do nothing all day! How are we going to keep track of those hours?"

"That's just the point, Walt." Alex replied. "We don't have to keep track of hours. Staff will be responsible for results. They're not going to get paid for chair time anymore. I think it's a great idea. We can finally be managers now and not just babysitters."

"I think it's just another management gimmick. Remember quality circles? That was supposed to be the greatest thing that ever came down the road for employees. And that just turned into a bunch of gripe sessions, and nobody ever did anything to solve the problems."

"Maybe, but we learned a lot from that. And we have new management now. I think Scott Montgomery and his team really listen to employees, and they've got some good ideas. I was just working on a list of jobs and people I think would be suitable for telecommuting. What about your department, Walt? Do you have people you can recommend for telecommuting?"

"Yeah," he chuckled. "I've got Paul Paolilli. I've wanted to get him out of my hair for a long time now. He never gets any work done, and he files a workers' compensation claim every time someone bumps his chair or he gets a paper cut. What are they going to do when he's telecommuting and files a claim for a little hot coffee he dribbled on himself at home?"

"Maybe he's not a good candidate for telecommuting," replied Alex.

"Oh, I think he's the perfect candidate. I'm putting him at the top of my list!" said Walt as he got up and headed back to his desk. "See ya later, Alex."

"Yeah," Alex said as he rolled his chair back up to his computer. "Maybe some of our managers need a reorganization," he muttered to himself as he went back to work on his list.

SCENARIO B: QUESTIONS FOR UNDERGRADUATE STUDENT TEAMS

Montgomery believes flexible scheduling can be a win-win for Thompson and its employees. He has asked your team to help plan for the implementation of the flexible scheduling and telecommuting programs. He has scheduled a meeting with your team this afternoon and has asked you to provide him with the following information:

1. What HR policies will be affected by the change to flexible scheduling, and how should those policies be changed?

2. What criteria should Thompson Technology use to determine the jobs appropriate for telecommuting, and what criteria should be used to select employees who are appropriate for telecommuting?

SCENARIO B: QUESTIONS FOR GRADUATE STUDENT TEAMS

Montgomery believes flexible scheduling can support Thompson's mission and be a win-win for the company and its employees. He is also certain that it can save on labor costs and improve productivity. He is meeting next week with the strategic planning team and wants to present them with some information on potential policy changes and cost savings. He has asked your team to research the information for him. You will be meeting with his management team later today. Your report should address the following:

1. How can flexible scheduling support Thompson Technology's mission and enhance the organization's strategic advantage?

2. How will flexible scheduling affect Thompson Technology's bottom line? What cost savings can be expected, and how will it affect revenue? Will flexible scheduling enhance the company's revenue stream?

SCENARIO B: QUESTIONS FOR UNDERGRADUATE STUDENT TEAMS

1. What HR policies will be affected by the change to flexible scheduling, and how should those policies be changed?

There are a number of policy changes that must occur for the successful implementation of flexible scheduling:

- **Staffing.** Career structures may need to be redesigned to replace the single career ladder that has been traditional in organizations. Employees will need new structures that allow them to move in all directions with a variety of timelines and platforms that support different career stages. The result should be increased employee control over their careers with improved productivity in the organization.

- **Compensation.** New compensation structures must be designed for flextime employees. The emphasis must change from hours worked to a focus on results, where employees have more control over their time and how their work is done. Measuring results allows employees to concentrate on what is really important without the distraction of time.

  For hourly employees who telecommute, legal requirements for minimum wage, the Fair Labor Standards Act (FLSA) and so forth remain in effect regardless of a worker's location. If Thompson allows telecommuting for both nonexempt and exempt employees, the company must continue to maintain time records for nonexempt employees as required under the FLSA. This can be accomplished by requiring employees to clock in and out electronically or by maintaining employee time logs. It may be more difficult for employers to control off-the-clock work of telecommuting workers than on-site workers, but Thompson's HR department needs to ensure that telecommuting employees and their supervisors understand that the FLSA standards that prohibit off-the-clock work are the same whether the employee is off-site or on-site.

- **Performance management.** Managers must be trained on how to manage off-site employees. Flexibility requires employers to trust employees. HR should help managers move away from the mindset of eyes-on employee control to performance assessment based on results. New communication structures must be established with clear expectations about how communication will take place between staff and supervisors. New performance metrics should be established and made available to employees so they can assess their performance from anywhere and at any time.

- **Safety.** Occupational Safety and Health Administration (OSHA) and workers' compensation regulations remain the same regardless of work location. Telecommuting employees should be reminded that safety regulations are the same for off-site employees. HR must be aware of location-specific regulations, because some areas require inspections or certifications of off-site work areas.

- **Equal employment.** Equal employment regulations apply to employees who take advantage of flexible scheduling and to telecommuting employees, just as they do to on-site employees. HR must ensure nondiscrimination in management of off-site employees and in all policies covering off-site work. In some circumstances, flexible scheduling or telecommuting may be a reasonable accommodation for a worker with a disability. HR will have to manage the specifics of each situation.

- **Technology.** Thompson should establish policies about the use of off-site technology for teleworking employees. The policy should address issues such as communication protocols, use of company property and security of confidential information.

2. What criteria should Thompson Technology use to determine the jobs appropriate for telecommuting, and what criteria should be used to select employees who are appropriate for telecommuting?

Not every job is appropriate for telecommuting. If the job must be conducted in the workplace, or if it requires in-person interaction among employees or among employees and customers, it is not suitable for telecommuting. Work that is tied to a specific location or to people or information that is located on-site only is not suitable for telecommuting. Computer-based or telephone-intensive jobs are likely candidates for off-site work.

Specific job information should be available to the organization from job analysis data found in the HR information system. If it has been some time since Thompson conducted a job analysis, or if the information is no longer valid, it may be necessary to conduct a new job analysis to ensure that decisions are made based on current job information.

Telecommuting employees (and where appropriate, their managers) must have the following characteristics (Leonard, 2011):

- Be able to work independently and without a lot of supervision.

- Have demonstrated self-reliance and the ability to meet deadlines and performance standards.

- Be comfortable with the technology required for successful telecommuting.

- Have strong communication skills and be able to communicate well electronically with team members and managers.

- Be able to collaborate well with others and can be depended on to adhere to teamwork requirements.

- Be comfortable with ambiguity.

- Be capable of independent thinking and be willing to take initiative.

- Have suitable space at home for working and a family that is supportive of telecommuting.

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SCENARIO B: QUESTIONS FOR GRADUATE STUDENT TEAMS

1. How can flexible scheduling support Thompson Technology's mission and enhance the organization's strategic advantage?

Thompson has a three-part mission that equally emphasizes customers, products and employees. To maintain competitiveness and to lead the marketplace, Thompson must change the workplace to meet the needs of its employees. Montgomery must convince the remaining doubters that workplace flexibility is not an employee perk; it is a business imperative.

Flexibility defines new ways of how work gets done and how employees' careers are organized. Advances in technology alone require that organizations rethink how employees interact with one another and how customer service is provided. Thompson's culture must move away from an emphasis on hours worked and refocus on results. The first step is to ensure that flexible scheduling is supported by top management. Montgomery should be prepared to supply the strategic planning team with some hard facts that demonstrate how flexibility in the workplace can increase morale, engagement, productivity and, ultimately, return on investment (Miller, 2011).

As the process is implemented, new structures may need to be formed that allow for a redesign of employee career ladders and new methods of managing and compensating employees. Flexibility will become a part of the organization's culture when flexibility goals are part of the strategic plan and when achievement is incorporated into performance management and reward systems.

2. How will flexible scheduling affect Thompson Technology's bottom line? What cost savings can be expected, and how will it impact revenue? Will flexible scheduling enhance the company's revenue stream?

Employers who have adjusted their work schedules to meet employees' needs report significant benefits to the organization and the employees. In 2007, more than one-half of employers that responded to a survey reported allowing at least some workers to periodically change their starting and ending times, and many agreed that the benefits far outweighed the costs. Organizations with a work/life balance focus report that flexible scheduling can save money by reducing the following (Rouse, 2010):

- Turnover.

- Recruitment expenses.

- Absenteeism.

- Real estate costs.

- Health care costs.

In organizations with high turnover rates, the estimated cost of replacing a salaried worker may be as high as 150 percent of the employee's annual salary. For hourly workers, the replacement cost is estimated at 50 to 75 percent of annual pay (Custom-Fit Workplace Initiative, 2011).

Employees who work flexible schedules report significant reductions in stress associated with conflicts that arise between work and personal responsibilities. For employees with children, flexible scheduling alleviates the tension created when work and school activities conflict. It is estimated that one-third of the workforce experiences such stress, with associated productivity losses amounting to $466 to $1,984 per employee per year (Custom-Fit Workplace Initiative, 2011).

Applying the estimated figures to Thompson's 800 employees would equate to a cost savings between $372,800 and $1,587,200 per year. Assuming a 15 percent reduction in workforce to 680 employees, the company would still see an annual cost savings between $316,880 and $1,349,120. Thompson may also save on health care costs. It is reported that workers with lower stress levels incur nearly 50 percent less in health care expenditures than those with high stress levels (Custom-Fit Workplace Initiative, 2011).

Organizations that allow flexible scheduling are also expected to save in real estate and other overhead costs. In 1996, Bell Atlantic reported that telecommuting saved between $1,500 and $5,000 per telecommuter per year. A 1999 study by the International Telework Association and Council estimated a savings of $10,000 per telecommuting employee (Custom-Fit Workplace Initiative, 2011).

Besides saving money, research shows that organizations can reap significant gains through flexible scheduling policies. A study of 550 employees in 100 organizations found a direct correlation between worker satisfaction and firm profitability. One study showed that organizations with highly committed employees had a 112 percent return to shareholders over three years. Research finds that the strongest improvement in market performance came from organizations that regard their employees as strategic assets rather than as costs to be minimized (Custom-Fit Workplace Initiative, 2011).

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