

STRATEGIC HR MANAGEMENT

INSTRUCTOR'S MANUAL



Thompson Technology: A Case Study in Controlling Labor Costs

Scenario A: Restructuring After a Hiring Freeze

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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 A: Restructuring After a Hiring Freeze. The scenarios are as follows:

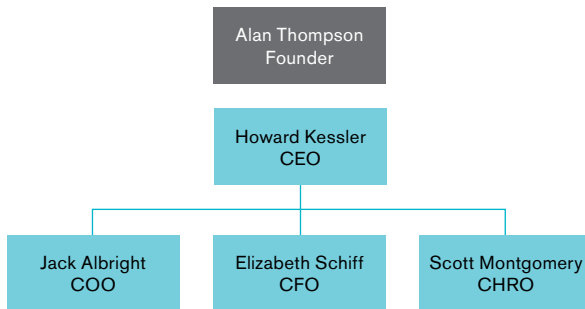
- Scenario A: Restructuring After a Hiring Freeze
- Scenario B: Flexible Scheduling
- Scenario C: Hot-Desking
- Scenario D: Moving Employees to a PEO
- Scenario E: Downsizing and the HR Department



Teaching note

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

Thompson Technology



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 A: RESTRUCTURING AFTER A HIRING FREEZE

Players:

Scott Montgomery, CHRO

Sally Werner, technical support supervisor

Maria Gonzales, payroll specialist

Betsy Reynolds, customer service employee

David Adams, accounting employee

The hiring freeze was successful; the overall staff numbers were down by about 5 percent. As Scott Montgomery had expected, however, simply reducing staff by attrition wouldn't ensure that reduction goals would be met or that reductions would occur in needed areas. Some departments had suffered serious talent loss when key personnel resigned, but other departments still had excess staff and duplication of effort. Reorganization was needed.

After the strategic planning retreat, Montgomery scheduled a series of meetings with COO Jack Albright and several department managers whose areas suffered most from the labor imbalances. Montgomery had a reorganization plan in mind, but he wanted input and agreement from those who would be affected before he implemented it. He knew it wouldn't be easy getting agreement. From discussions during the retreat, it was clear that everyone recognized the need to realign and further cut costs, but some managers seemed more interested in protecting their turf than designing a feasible plan.

It took a lot of negotiation, but a plan was finally agreed to and approved by Kessler. Montgomery's HR staff was ready to move ahead with implementation. Like the previous reorganization, work groups were again realigned, teams were re-formed and job assignments changed.

Even the facility changed. Partitions were removed and cubicles disappeared to reconfigure the office into an open floor plan. It was expected that the open plan would foster a sense of unity and ease communication among co-workers and managers. The managers would no longer be isolated in private offices; they would sit side by side with those they supervised. A number of managers objected to the open floor plan. They didn't like giving up their personal work space or the status inferred by a private office.

"How can I talk privately with a staff member when I'm out in the middle of the floor and everybody's hanging around listening?" Sally Werner, a technical support supervisor, grumbled to her friend Maria Gonzalez, a payroll specialist. "You're the only one left with a private office, Maria, and that's just because you do payroll!"

"Well, there are private conference rooms on each floor," Maria replied. "You can always use those."

"They've all got windows that look right out onto the floor. Everyone knows who you're in there with. As soon as I call someone in for a private conference, everybody will assume they're getting reprimanded."

“I hadn’t thought of that. If that’s the assumption, Sally, maybe you have an image problem,” teased Maria.

“It’s not funny,” Sally said. “I just think this whole thing is a lousy idea. And what are those people in marketing going to do? They bring their dogs to work. Before this, they had to keep their dogs in their cubicles. How’s that going to work now?”

“I don’t know,” said Maria. “Maybe there won’t be any more dogs around.”

“I suppose, they’re cutting back dogs, too,” Sally grumbled cynically. “Just like everything else—even our benefits are going away. No more tuition reimbursement, no more free coffee. This place is just not what it used to be. There is less of everything around here except the workload. That gets bigger all the time.”

“Well, I’m swamped too,” said Maria. “HR’s really scrambling with so many people reassigned. Scott’s desk is piled high with requests from employees for compensation reviews. Everyone thinks a little change in job assignment means more money. The only ones not complaining are the dogs!”

“Well, what did they expect?” said Sally. “I’ve never seen such a dispirited, burned-out bunch of people. You know, Maria, it’s never a little change—it’s a lot! Most of us are working longer days, and no one even says thank you anymore. You know David Adams in accounting? He told me he hasn’t had a performance review in nearly two years.”

“Wow! How can that be?” asked Maria. “We’re supposed to have one every year.”

“I know, but managers aren’t doing them. David said every time he asks his boss about it, his boss just shakes his head and says he has so many people to supervise now he just doesn’t have time to do performance reviews anymore. David thinks they’re really just trying to delay everyone’s raise so they can save a little money.”

“Maybe so, but that’s terrible!” said Maria, “I’m surprised Scott lets them get away with that.”

“Well, maybe he doesn’t even know. I think he’s pretty out of touch with what’s going on around here. What about that ridiculous policy telling us not to talk about compensation? How do they think they can enforce a policy like that? Everybody’s talking, and some people are just plain angry. Betsy Reynolds in customer service has already had three different job assignments in the past year. Each time someone leaves, she moves into a new position, reports to a new boss and just gets more work piled on. She’s working longer and longer days just to keep up, but there’s never any more money! She told me she’s had it. She’s looking for a new job!”

“Betsy?” asked Maria. “She’s been here for years. She knows everything about the company. She’s the best customer service person we have.”

“I know, but management doesn’t even notice what’s going on. If she leaves, it’s just one less body on the payroll, and that seems to be what they want. Frankly, I don’t think we can take any more reorganization!”

SCENARIO A: QUESTIONS FOR UNDERGRADUATE STUDENT TEAMS

Montgomery is not as out of touch as Sally thinks. He knows employees are worn down from so many changes and that morale has plummeted. It has him worried. He knows that when morale is low, employees disengage, productivity falls and innovation ceases. Thompson's strategic advantage of product innovation and exemplary customer service is at risk. Montgomery is meeting with Kessler and Albright tomorrow morning to formulate a plan to assess and improve employee engagement. He asked your team to help prepare the plan. You will meet with him later this afternoon to give him answers to the following questions he asked you to research:

1. How can HR assess the level of employee disengagement at Thompson Technology?
2. What can HR do to improve employee engagement and maintain productivity?

SCENARIO A: QUESTIONS FOR GRADUATE STUDENT TEAMS

The objectives of the strategic planning retreat were twofold. The first objective was to formulate plans to move the organization into new markets to increase revenue. The second objective was to find ways to reduce expenses. Compensation was a key component of those discussions, because labor costs are Thompson Technology's largest expenditure. A number of ideas were generated to control costs, although no agreement was reached on exactly what should be done. As the discussions concluded, however, everyone agreed that compensation equity was a top priority and that it must reinforce the organization's strategic advantage of product innovation and exemplary customer service.

Montgomery was well aware that some employees believed their workloads had increased as a result of the reorganizations and staff reductions, so it came as no surprise to him when he returned from the retreat to find his desk piled with employee requests for compensation reviews.

The strategic planning team will meet again later this week. Montgomery wants to be ready with a plan to refocus Thompson's compensation system. He has scheduled a meeting with your team this afternoon and has asked you to provide him with the following information:

1. What should be done about the numerous employee requests for compensation review, and how can Thompson Technology ensure equity in the compensation system?
2. How can compensation at Thompson Technology reinforce the organization's strategic advantage of product innovation and exemplary customer service?

DEBRIEF

SCENARIO A: QUESTIONS FOR UNDERGRADUATE STUDENT TEAMS

1. How can HR assess the level of employee disengagement at Thompson Technology?

Employees often have difficulties adapting when an organization goes through a major change initiative. Montgomery is justifiably worried about the negative effect of disengaged employees on Thompson's strategic advantage. Low employee engagement not only affects performance, it increases employee turnover, lowers customer service satisfaction and increases absenteeism (Cataldo, 2011).

There are a number of ways Thompson can gather information on employee engagement. Focus groups, employee surveys and town hall meetings can be used to get needed information from employees. Surveys must be done in a way that ensures employee confidentiality. Thompson may want to consider using detailed gap analyses separated by division, location, department, etc. Engagement surveys often assess dimensions such as the intent to stay, employee trust and organizational commitment. Surveys can provide useful information regarding the relationships among job satisfaction, employee engagement, retention and the overall financial performance of the organization (Lockwood, 2007).

High employee engagement is also linked to effective management practices, and because HR often serves as the link between senior management and employees, it plays a key role in maintaining employee engagement and productivity. HR must ensure that open, effective communication is practiced in the organization and that all supervisors are trained in the skills necessary for good management of employees.

2. What can HR do to improve employee engagement and maintain productivity?

Thompson has changed since the hiring freeze. The company must recognize that with any staff reduction—even one as seemingly benign as a hiring freeze—employees experience stress and anxiety. As employees absorb the extra work left by departing co-workers, fatigue and burnout become major concerns to employee engagement. Senior managers should expect and plan for a decrease in engagement and productivity that typically results from staff reductions. There are a number of ways to improve employee engagement:

- **Communication.** It is important to clearly and consistently communicate the organization's goals and objectives. Employees should receive frequent, honest information. Everyone—from top management on down—should be apprised of how the company is doing and be aware of future plans. Information-sharing meetings should be scheduled with all employees to bring everyone up to date on changes at Thompson. Effective communication also involves good listening. HR staff members should work with managers to ensure that the company's culture encourages employees to raise their concerns. An ombudsperson or someone in HR should be designated to hear and respond to employees' concerns.

- **Feedback.** Montgomery may want to conduct a survey to obtain feedback on employee issues. The survey must be designed and implemented in such a way that employees will be comfortable enough to give honest feedback. If employees fear retaliation or are not assured of confidentiality, information derived from the survey will be meaningless. Thompson must be prepared to address the issues identified by the employees in the survey. If no action is taken, the company risks a further decline in employee morale.
- **Restructure and reassign work.** Workload issues arising from the hiring freeze and the reorganization should be addressed. Don't expect that work left by a departing staff member can easily be absorbed by the remaining staff.
- **Collaborate.** Employees should be included in the planning for reassignment of workloads. Montgomery should schedule meetings with employees and their supervisors to assess the employees' workloads and prioritize tasks. Montgomery should also ensure that management is realistic in its expectations and that employees know how they can contribute to the process.
- **Organizational structure.** A new organizational chart that addresses the changes in structure and workload should be distributed to employees. Employees should understand their positions and workload issues in the new structure. Senior managers should reassure employees about the viability of their positions and provide a sense of equity in workload assignments.
- **Training.** Employees should receive the resources and training needed to be successful in their new job assignments.
- **Metrics and rewards.** New metrics that assess employee performance should be established. Montgomery should ensure that there are appropriate rewards in place to recognize employees' work. Although financial rewards may not be possible in a cost-cutting environment, psychological rewards from supervisors or HR can be enormously effective in maintaining employee morale. It is important that employees know their work is appreciated. Managers whose behavior fosters employee engagement should also be rewarded.
- **Supervisors.** HR should work with supervisors to help them adjust to managing departments with fewer employees and increased workloads. Supervisors may need to learn new ways to mentor and collaborate with employees.
- **Work/life balance.** Montgomery and his team should make sure that there is appropriate work/life balance for employees. Occasional overtime may be necessary, but demanding long-term overtime by hourly employees or expecting nonstop 10- and 12-hour days from salaried exempt employees will lead to burnout and further loss of productivity.

- **Career planning and development.** Montgomery and his teams should ensure that employees understand the company is still interested in their long-term success. When organizations engage in cost-cutting strategies, absenteeism often increases because employees are stressed and anxious about the security of their jobs. HR should give employees a reason to stay by supporting career growth in the company.
- **Visibility.** HR must remember that supporting staff is just as important for organizational success as providing support for management. HR staff members must be out and about, meeting with employees and listening to their issues. Montgomery must ensure that the HR department is visible and perceived as a support resource for employees.

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DEBRIEF

SCENARIO A: QUESTIONS FOR GRADUATE STUDENT TEAMS

1. What should be done about the numerous employee requests for compensation review, and how can Thompson Technology ensure equity in the compensation system?

Montgomery cannot ignore the requests. The fact that his desk is piled with employee requests for compensation review indicates a widespread belief among employees that the reward system is inequitable and not appropriately correlated to the level of work being done. Reward systems are expected to attract, retain and motivate employees. It is imperative, then, that employees perceive the system as equitable to avoid decreased morale, decreased productivity and employee turnover that results from employee dissatisfaction. There are a number of actions that Montgomery can take to address employee dissatisfaction and to ensure compensation equity:

- **Realign workloads to ensure equity and reasonableness.** The employee loss from the long-term hiring freeze caused an imbalance across the organization and significantly changed the workloads for the remaining employees. HR must work with managers and employees to conduct an audit of the workload changes that occurred. There may be employees who are significantly overburdened because they assumed the workload of a co-worker who left the organization. Montgomery may need to conduct a job analysis to get a better understanding of the work being done by employees. At the very least, the job analysis should include employees who were affected by workload re-alignment. Based on information derived from the analysis, workloads should be redistributed, and managers must be reasonable in their expectations of employees.
- **Audit the compensation of all employees to determine where workloads are out of balance with compensation.** If compensation has become significantly distorted by changing work assignments, Thompson may need a complete overhaul of the compensation system. Thompson should adjust the compensation of those employees who are most affected by workload reassignment.
- **Conduct a job evaluation.** A job evaluation is the process of determining the relative value of one job in relation to another in an organization. Its primary function is to ensure internal equity across the organization (Mondy, 2012). In addition, Montgomery should assess the organization's compensation strategy to ensure it is appropriate for the current circumstances.
- **Conduct a salary survey.** Thompson should ensure external compensation equity if it wants to be competitive in the marketplace. If Thompson's compensation has sunk below the market price for comparable jobs in the community, they will experience unintended employee turnover. A salary survey can determine if Thompson's compensation is still at competitive levels.

- **Realign the salary structure as needed.** Thompson should realign its compensation structure where needed based on the information derived from the job analysis, job evaluation and market survey. Pay grades and pay ranges must be updated to ensure competitiveness in the marketplace and equity across the organization.

2. How can compensation at Thompson Technology reinforce the organization's strategic advantage of product innovation and exemplary customer service?

If they haven't done so already, Thompson may want to include performance-based pay as part of its total rewards package. According to a 2010 survey from outsourcing firm Kelly Services, there is a high degree of interest from employees in having a portion of their compensation tied to the financial performance of their organizations. The survey also found that nearly a third of U.S. workers whose pay was not tied to performance believed they would be more productive if they had a greater stake in the companies that employ them through benefits such as profit sharing. Linking compensation to performance may also help Thompson increase sales revenue (Miller, 2010).

Incentive plans must be well designed if they are to contribute to the organization's success. Effective plans meet the following requirements (Noe, Hollenbeck, Gerhart & Wright, 2011):

- Performance measures are linked to the organization's goals.
- Employees believe they can meet performance standards.
- The organization gives employees the resources they need to meet their goals.
- Employees value the rewards given.
- Employees believe the reward system is fair.
- The plan takes into account that employees may ignore any goals that are not rewarded.

For Thompson, exemplary customer service is a strategic advantage. Thompson may want to consider linking performance bonuses directly to accomplishment of customer service goals. Performance bonuses maintain flexibility in compensation because they do not add to the employee's base pay and have the advantage of being re-earned during each performance period. Bonuses can be used as a one-time reward, or they can be part of an ongoing system. Thompson employees would probably like to see the company institute a performance plan; research indicates strong support from employees for performance bonuses that are linked to productivity (Miller, 2010).

Thompson may also want to consider adding a profit-sharing plan to its existing rewards system. Profit sharing encourages employees to think like owners and increases understanding of how their individual performance is linked to company profitability. Profit sharing also has the practical advantage of costing less when the organization experiences financial difficulties.

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