

# STAFFING MANAGEMENT

## INSTRUCTOR'S MANUAL



### Thompson Technology: A Case Study in Controlling Labor Costs

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### Scenario E: Downsizing and the HR Department

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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 E: Downsizing and the HR Department. The scenarios are as follows:

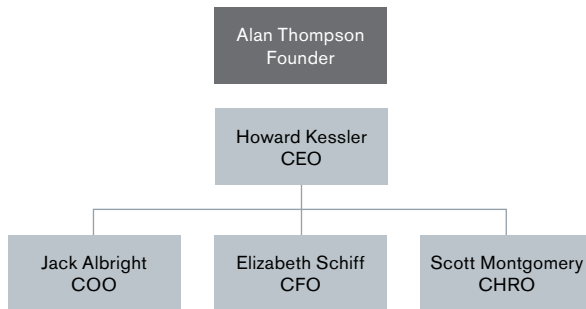
- Scenario A: Restructuring After a Hiring Freeze
- Scenario B: Flexible Scheduling
- Scenario C: Hot-Desking
- Scenario D: Moving Employees to a PEO
- Scenario E: Downsizing and the HR Department



### 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 E: DOWNSIZING AND THE HR DEPARTMENT

### Players:

Scott Montgomery, CHRO

Jack Albright, COO

Elizabeth Schiff, CFO

Maria Gonzalez, payroll specialist

Howard Kessler, CEO

It's been three years since Thompson implemented the hiring freeze. Scott Montgomery had hoped Thompson's revenue stream would improve so the hiring freeze would be enough to keep labor costs in line with profits, but that has not been the case. As the economy continued to spiral downward, so did demand for Thompson's software; revenue have fallen short of projections for the past two years. As a result, a number of measures were implemented to further reduce labor costs.

Departments were restructured and staff was reassigned to redistribute the workload left by departing employees. Most employees are now on flexible schedules, and the company encourages telecommuting where appropriate. Early last year, two floors of cubicles were consolidated into one floor of hot-desks, enabling Thompson to increase revenue by leasing out one floor of the building. Remembering how difficult that transition was, Montgomery still wonders how they all got through it. Some employees still grumble about crowded conditions and the lack of privacy in the open floor plan, but the move had a positive impact on Thompson's income statement.

The HR department has reports on all the staffing changes that occurred, and Montgomery is pleased with the results. Absenteeism rates are down, productivity is up, and labor costs are down by nearly 10 percent, as targeted. As much as he was hesitant at first, Montgomery has to admit that moving the engineering and design employees to a professional employer organization (PEO), Mayfield, resulted in significant cost savings. Thompson pays a flat fee for service to the PEO, who manages all the administrative costs and benefits for the leased employees. Montgomery is now working with department managers and the strategic planning team to move additional employees to PEO status in the coming year.

Montgomery's HR staff was not exempt from the changes. The staff has not decreased so far, but their workloads have decreased. Montgomery realizes there is no way to justify the current staffing levels in the department. With many administrative duties shifted to Mayfield, there is far less need for administrative HR to be done in-house. When additional employees are moved to leased status, there will be even less need for in-house HR. Montgomery is consequently formulating a plan to reduce the HR department. He has expected the reduction all along, and he has had several conversations with his staff, so it will be a surprise to no one. He still finds it gut wrenching to plan a reduction for his own department. Most of his staff members are long-term employees, and he's not looking forward to making those reduction decisions.



Thompson has managed most HR functions in-house, with the exception of some benefits. Employee health care benefits are managed by an outside provider, as is the company's defined contribution plan and employee assistance program. When specialty training is occasionally necessary on a new process or equipment, the training manager uses outside vendors, but otherwise Thompson does training in-house as well. Payroll management was outsourced a few months ago, eliminating Maria Gonzalez's payroll specialist job, but Montgomery managed to work her into a recruiting position.

Montgomery understands that his staff of 10 people is big for an organization with 800 employees, which was the number of employees Thompson had when they ran a full house. But the number is somewhat in keeping with the standard ratio of 1.21 HR staff to every 100 full-time employees (this ratio would be expected in a comparable organization in which the HR department manages a broad scope of activities) (SHRM, 2008).

Montgomery was taking notes for outsourcing some of the HR functions when he received the following phone call from COO Jack Albright.

"Scott," said Jack, "there's not very good news from Elizabeth Schiff on the quarterly profit picture. The numbers are down again. It seems stockholders are getting pretty nervous about Thompson's future, and this time Kessler's laid it on the line. I'm sorry, Scott, but it looks like you'll have to contend with more than just downsizing your own department. They are asking for an additional 10 percent reduction in force, straight across the board—as soon as possible."

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## SCENARIO E: QUESTIONS FOR UNDERGRADUATE STUDENT TEAMS

Montgomery wants to get the overall staff reduction taken care of before he tackles the HR reduction; he will need his staff to help manage the reduction process. He wants to make this as smooth as possible with consideration for the employees and for the future of Thompson. He has asked for input from all of his managers. He has scheduled a meeting with your team this afternoon, and he asked you to report on the following:

1. What should Montgomery do to prepare the organization for downsizing, and how should downsizing be managed for the best long-term results for both Thompson and the employees?
2. What are the organization's responsibilities to downsized employees and to those employees who remain after the staff reduction?

## SCENARIO E: QUESTIONS FOR GRADUATE STUDENT TEAMS

Montgomery wants to have a plan in place for the HR department before he moves ahead with an across-the-board downsizing. He knows that when the companywide downsizing is complete, his department will be reduced. He needs some metrics to measure HR's value so he can make appropriate decisions. He thinks the first step should be an audit of the HR department. From there, decisions can be made regarding which functions to outsource and which to keep in-house. He is meeting with your team this afternoon and has asked you to report on the following:

1. What should be included in an audit of the HR department, and what metrics can be used to determine the viability of HR programs?
2. What are your team's recommendations for HR functions to outsource, and which functions should remain in-house?

## DEBRIEF

### SCENARIO E: QUESTIONS FOR UNDERGRADUATE STUDENT TEAMS

#### **1. What should Montgomery do to prepare the organization for downsizing, and how should downsizing be managed for the best long-term results for both Thompson and the employees?**

Organizations must plan carefully before proceeding with a reduction in force. A poorly executed reduction can result in legal claims from discharged employees, as well as diminished productivity and lower morale from those who remain. Reductions can have long-term consequences if they create a negative reputation for the organization in the business community. The result can be difficulty in attracting and retaining future employees when the company is back on its feet and ready to rehire.

The organization should explore alternatives before enacting a reduction in force. Thompson, however, has already engaged in a number of strategies to cut labor costs and is looking at reduction as the last step in an overall plan of cost reductions. The first step in the reduction process is to identify the long-term vision and goals for the organization in terms of labor and to ensure that a reduction is in keeping with the strategic goals of the organization.

The second step is drafting a downsizing plan. The plan should identify locations, departments and jobs that will be eliminated and establish a budget and timeline for the process. Thompson should eliminate temporary employees first and then survey employees to see if there are any who want to volunteer for early retirement. Thompson should offer an appropriate severance package to motivate employees to voluntarily terminate; this, in conjunction with the elimination of temporary employees, may be all the reduction that is necessary. If not, further reductions may be required. Before proceeding any further, the downsizing plan should be reviewed by legal counsel.

The next step is to identify the selection criteria to determine which employees will be downsized. This step should utilize documentation from the HR information system. Supervisory managers and representatives from the HR department should participate in this process. After the reduction decisions are made, they should be reviewed by a second manager who is familiar with the affected department to ensure equity in the decision process. It may be necessary to train managers so they understand their roles in the reduction process and know how to respond to employee questions.

Lastly, it is important to conduct an HR audit of the selection decisions and supporting documentation to ensure that the decisions are nondiscriminatory and that there is no adverse impact resulting from the reduction.

## 2. What are the organization's responsibilities to downsized employees and to those employees who remain after the staff reduction?

### Obligations to Downsized Employees

The obligations to downsized employees include communication, legal considerations and outplacement.

#### Communication:

- The organization must ensure that downsized employees are treated respectfully and that all legal responsibilities are met. If the organization qualifies under the Worker Adjustment and Retraining Notification (WARN) Act, employees must be notified at least 60 days before the reduction goes into effect.
- All employee notifications must be conducted in person. The organization must make it clear that this is a final action, not a layoff in which employees may expect to be called back.
- The organization should ensure privacy and confidentiality in all matters regarding the reduction. The reduction actions should not be discussed with anyone who does not have a direct need to know.
- The organization should ensure that off-boarding activities are conducted appropriately, including exit interviews and eliminating access to company property and information services.

#### Legal:

- Some employers must provide 60 days' notice of the intent to reduce their workforce under the WARN Act. The WARN Act may also require notification to local and state regulatory agencies.
- HR should provide information about the final paycheck or any additional money that may be owed to employees, like vacation time, reimbursements, etc.
- HR should provide information about salary continuation and benefits conversion plans.
- Employees must be informed of their COBRA and Employee Retirement Income Security Act (ERISA) rights.
- HR should provide information regarding 401(k) or pension plans.
- HR should provide any release forms that may be required by the organization.

**Outplacement:**

- If open positions are available elsewhere in the company, HR should notify employees or assist them with a transfer.
- The employer should offer information about employment and other job placement services that may be available for positions outside the organization.
- If possible, employers should offer job search assistance to employees, such as interview training, resume writing, etc.
- HR should ensure that downsized employees have information about unemployment insurance and all other benefits that may apply.

**Obligations to Employees Not Downsized**

Downsizing is a significant change for the organization, so expect that everyone—including employees who are not downsized—will be affected. Remaining employees experience decreased employee morale and loss of productivity when an organization is downsized, so expect changes in the level of employee engagement.

Senior managers should ensure that employees understand why the downsizing was necessary and how the decisions were made. Managers should be transparent about the economic well-being of the organization and expect that remaining employees will be concerned that their jobs may be at risk in the future. Many employees may suffer from survivor syndrome and experience feelings of guilt and depression.

Managers involved with implementing the downsizing decisions may have the most difficulty because the process is highly stressful and exhausting. It is important to remind employees that they are important to the organization's success; give them a reason to stay with the company. It will take time for the negative effects of downsizing to pass. In the meantime, provide support and encouragement to employees.

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## DEBRIEF

### SCENARIO E: QUESTIONS FOR GRADUATE STUDENT TEAMS

#### **1. What should be included in an audit of the HR department, and what metrics can be used to determine the viability of HR programs?**

Organizations often conduct a cost-benefit analysis to determine the dollar return on investment when assessing the viability of a department. If the cost of maintaining a department is more than the revenue generated by that department, the temptation is either to eliminate it entirely and outsource the necessary functions or to reduce the areas of the department that are the most costly. Unfortunately, conducting a simple cost-benefit analysis does not show the actual value of a department to the organization's well-being.

When calculating the total HR cost to the organization, managers often use one of three methods (Krell, 2010):

1. Calculate the HR cost per full-time-equivalent employee.
2. Calculate the HR cost as a percentage of revenue.
3. Calculate the HR cost as a percentage of total operating costs.

If these methods are used, HR will always be seen as a cost on the organization's balance sheet, and HR managers will be asked to justify the value of their department. If the HR department is merely administrative, it may be difficult to justify the expense of the department because most administrative services can be outsourced. When it can be shown that the HR function plays a strategic role in the organization, however, the returns can be significant, and HR will no longer be considered merely a cost center. SHRM's 10-year study of more than 2,000 organizations shows that managing an organization's workforce effectively can increase shareholder value by 10 to 20 percent (Becker & Huselid, 2003).

A comprehensive audit should show how HR practices contribute to the achievement of an organization's strategic goals and objectives. To the extent that HR can drive human capital performance, it contributes to an organization's overall performance. To measure HR's strategic performance, the audit must focus internally on HR's unique, strategically relevant contributions instead of focusing externally on measures such as cost-per-hire or benefits as a percentage of revenue (Becker & Huselid, 2003).

The process starts with a thorough understanding of the organization's structure and strategic goals, followed by an analysis of the HR department, and finally, assessment of the correlation between HR functions and strategic attainment.

In this case, Montgomery should consider the following metrics to determine HR's contribution to Thompson's attainment of its strategic goals (SHRM, 2011):

- Review the company's business strategy and goals and determine how HR activities align with these strategies. Distinguish between strategy formulation and strategy execution, and remember that HR's focus should be on strategy execution.
- Determine which HR functions should be measured to align with company objectives and which HR metrics provide the most relevant information about how HR helped attain those objectives.
- Define what HR metrics will be used and develop a formula for measurement.
- Determine what data is needed and how it will be collected.
- Determine how often the information will be collected and reported.
- Determine what format will be used to report the data and who will receive the report.

## **2. What are your team's recommendations for HR functions to outsource, and which functions should remain in-house?**

There are numerous ways to structure the HR department to meet the organization's goals. Organizations that want to staff their HR functions strategically must understand the essential elements of a strategic HR department, select an appropriate structure for the HR function and determine which HR responsibilities should be sourced internally or externally (Bliss, 2011). Core activities that add the greatest value to the organization should be handled internally using highly qualified HR professionals. Low-value HR activities are candidates for outsourcing.

The findings of a SHRM benchmarking study (2008) show that organizations prefer to maintain control over the following HR responsibilities rather than outsource them to a third-party vendor:

- Performance management.
- Employee communication plans and strategies.
- Policy development and implementation.
- Strategic business planning.
- Compensation and incentive plan administration.

The same study found that a majority of organizations completely or partially outsource the following transactional and administrative HR activities:

- Employee assistance and counseling.
- Flexible spending account administration.
- Payroll administration.
- Background and criminal background checks.
- Retirement planning and retirement benefits responsibilities and administration.

Outsourcing some of the transactional HR functions at Thompson will reduce costs and allow the department to focus on more strategic HR activities. This may jump-start the department toward best practices that would otherwise take longer to implement.

After Montgomery decides which functions to outsource and which to maintain in-house, he must decide whether to retain his existing staff and retrain them as necessary or reduce the staff and recruit for the specific skills needed in his newly aligned department. These decisions will be difficult, but the realigned department will be in a stronger position to help the company attain its long-term strategic goals.

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