

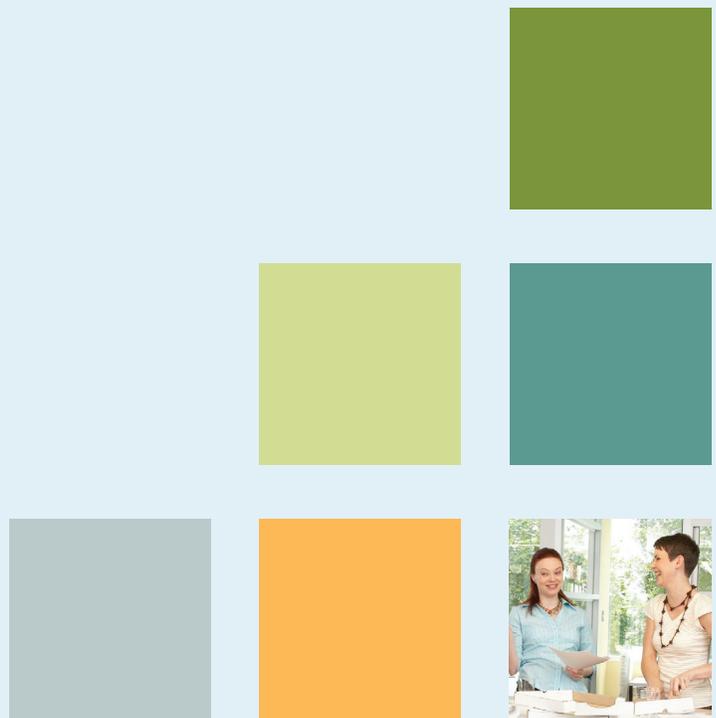
SHRMTM

SOCIETY FOR HUMAN
RESOURCE MANAGEMENT

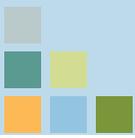
Valley Technology Inc. — A Case Study

By Rudolph Sanchez, Ph.D., and Mary Bielenberg-Sanchez

Instructor's Manual



EMPLOYEE AND
LABOR RELATIONS



CASE OVERVIEW AND TEACHING NOTES

Background

While this case is fictitious, it is loosely based on actual events in several high-tech firms with facilities around the world.

Target Audience

Undergraduate students.

Learning Objectives

Conducting an effective workforce reduction is a multifaceted and challenging task. In this case, an emphasis will be placed on students thinking critically about the various decision points in conducting a workforce reduction. Legal, strategic, talent management, and ethical concepts will be explored. Students will devise action and communication plans. Sample solutions to the case will be provided.

Case Administration

The case is best utilized in small group or small lecture/seminar format. Some familiarity with basic human resource concepts is assumed (e.g., the WARN Act and early retirement). If the students read the case in class, the case can be completed in a 50-minute period. The case will take approximately 15 minutes to read. If students read the case outside of class and record their responses to the discussion questions, the case can be analyzed in 30 minutes.

Suggestions for more advanced interface with the subject material are provided at the end of the instructor notes.

The case is structured around three key decision points:

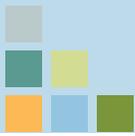
- Which cost cutting strategy should be followed?
- Which reduction in force strategy should be followed?
- Who should be selected for layoff?

The final component of the case concerns how to re-engage the surviving workforce after the notification.

As in real-world situations, there is no one correct response to the discussion questions. The purpose of the case is to prompt students to think about the complexity of a necessary budget cut situation.

The case is constrained in a number of ways to ensure that the scenario is “workable” in one hour. For example, the financial case for the human capital reduction lacks complex information; only enough financial and background business information is provided to establish the foundation of the case.

Exhibits A, B, C, and D are provided in the student workbook as part of the case. Exhibit E can be shared with students after they have “worked” the case. Exhibit E is an example of a better designed notification letter. While the letter is based on actual notification communications in both the private and public sectors, the letter should not be used in an actual situation. It is not provided as a legally defensible or best practice document.



Individual or Group Analysis

The case is designed so that it can be analyzed individually, in small groups, or in a small lecture context. If a thorough discussion of the various issues raised in the case is desired, then it is recommended that students read the case before the class session to maximize the time for discussion.

It is possible to assign different aspects of the case to different groups. For example, a small group could be tasked with one portion of each discussion question. Alternatively, instructors could assign two or three groups to the same question.

Discussion Question One

What would you recommend as the best mix of cost reduction strategies (e.g., reduction in force, redeployment, early retirement)? What are the strengths and weaknesses of each of the strategies listed? Can you think of any additional strategies?

If the case is given to students during a class session, you may have the students stop reading after the Human Capital Cost Savings Strategies list. At this point, the first process question can be discussed.

Regardless of when the human capital cost savings strategies are discussed, one approach to facilitate dialogue is to have small groups take one or two of the strategies and present the pros and cons of that approach(es).

Some combination of strategies is probably best. In the actual organizations used as a reference, this was the approach. It is important to emphasize to students that over-reliance on any of the voluntary options may lead to considerable short-term and long-term organizational performance issues. This may be due to the voluntary exit of higher performers who may find jobs with other organizations with relative ease, or the loss of organizational knowledge that longtime employees maintain.

Frequent RIFs will also likely have long-term implications. In some organizations, managers may get lazy in ensuring that their direct reports perform up to standard. Instead, these managers will await the next redeployment, early retirement, or involuntary RIF to eliminate lower performers.

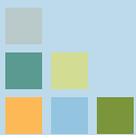
If a number of involuntary layoffs are preceded by offers of early retirement, employees who qualify for early retirement may begin to “work toward the next offer”. It is possible that in this situation, commitment to the organization and performance declines because the employee anticipates leaving the organization with a handsome severance package the next time one is offered.

Discussion Question Two

Assuming that Jan will need to orchestrate a layoff as part of the cost savings solution, what criteria should she establish to identify the employees to lay off? What are the pros and cons of each criterion? Are there other criteria that can be used?

Again, while there is no correct response to the question, some solutions are better than others within the context of the case. For example, in the case, VTI is in need of a different mix of skill sets than currently exists. This is an important strategic point. In many cases, students will think that RIF decisions are best based on performance. However, excellent execution of skills that are no longer useful to the organization is problematic.

Encourage students to think about what other conditions (outside the case) might drive the decision-making process. For example, if the temporary workers were hired as “extra hands” for existing skill sets in the organization, then eliminating the temporary workers would likely be the most efficient solution.



Discussion Question Three

What is your assessment of the two draft communications provided in the exhibits (the letter to affected employees and the e-mail to all employees)? Is there anything you would change? If so, what?

There are a number of issues related to the VTI communications that are of interest.

First, there is a significant amount of jargon included in the notification letter. For example, the term “affected” is used as a euphemism for layoff. Additionally, phrases such as “Working Notice Period” and “Post-Working Notice Period” are not clearly defined. Encourage students to discuss the importance of every word in highly sensitive communications such as a notification letter.

Secondly, VTI is providing “affected” employees with considerable resources to find another job (assistance with job hunting, résumé writing, interviewing). This is not required by law. Students may discuss VTI’s motivation in offering such services to employees who may be leaving the organization shortly.

In the e-mail message to all VTI employees, students may discuss the tone of this communication in comparison to the stated value of employees by the CEO. Secondly, the single sentence regarding the availability of a list of affected employees should give students pause.

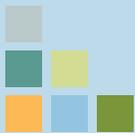
One of the implied assumptions of this case is that the decision to lay off and who is affected is not shared with anyone until needed. Note that in the timeline, only on the notification date are stakeholders notified. This lack of communication is a point of considerable debate. Some organizations prefer to include all employees, shareholders, etc., in the decision-making process. You may wish to ask students the pros and cons of keeping RIF information on a “need to know” basis versus being transparent about the entire decision-making process.

Another issue hinted at in the case concerns who should be present in the notification meetings. There are a number of reasonable approaches to this issue. It could be a one-on-one meeting with the immediate manager and the employee (as implied in the case). It could be these two individuals with an HR representative. Some organizations have also delegated the “plus-one” supervisor (or some other higher-level manager) as the primary messenger with the immediate manager present at the notification meeting. Some organizations may choose to hold a mass meeting of all employees and then follow-up with individual meetings. Outside of the formal notification meeting and process, some organizations increase visible security on notification day.

Although not a part of the case, with any unannounced RIF, it is likely that not all affected employees will be at work on the notification date. Students could discuss what they would recommend for employees who need to be notified who are on vacation, out sick, on leave, etc., on the notification date.

While Exhibit C, the notification letter, has its problems, a recent Harris Interactive survey found that 10 percent of employees reported that their organization used e-mail to fire or lay off employees.

Instructors wishing to present a more applied research approach to the case may find the sections on organizational justice and survivor guilt below helpful. Some relevant concepts and research from these literatures are discussed.



Extended Exercises

The following exercises are offered as options for instructors who want to delve deeper into the case and/or develop business writing or communication skills.

Write a Notification Letter

After the deficiencies of the sample letter in the case are identified (Discussion Question 3), instructors can ask individual or small groups of students to draft a more appropriate letter.

Role Play Notification Meeting

While very little information is provided in the case regarding how to conduct a notification meeting (this was not the focus of the case), instructors can ask students to role play that scenario. For this type of novel role play to be successful, it is recommended that students be assigned the activity and roles prior to the actual role play class date. This will help students prepare.

The role plays can be done in at least two different ways. First, the instructor may ask the assigned manager and affected employee to role play in front of the class. The class would then serve as observers and assist with the assessment of the role play. Second, trios of students can simultaneously role play the scenario. In this case, one student in each trio would have been assigned a specific role: manager, affected employee, or observer.

Organizational Justice Theory

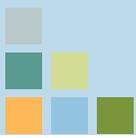
The following brief review of organizational justice theory is excerpted from Sanchez and Byrne (2004):

Recent research has provided evidence for four types of perceptions of organizational justice (Colquitt, 2001): distributive, procedural, informational, and interpersonal; although there has not always been agreement over the number or types of justice. Distributive justice, based on equity theory (Adams, 1965), refers to an individual's perception of the fairness of outcomes (Deutsch, 1985). Equity theory suggests that individuals compare their input-outcome ratio to others' input-outcome ratios to determine if the final outcome is fair. If the comparison ends up in favor of the other, the resulting perception is that there is a lack of fairness. Perceptions of distributive justice tend to refer to the overall reward and recognition system of an organization, although survey items asking about distributive justice may often be focused on how the supervisor rewards individuals. It is understood that the supervisor's ability to allocate outcomes is based on the guidelines of the overall system or rules set by the organization.

Procedural justice refers to perceptions of fairness of the procedures used to determine outcomes and make decisions (Thibaut & Walker, 1975). Although perceptions of procedural justice tend to refer to the fairness of procedures established by the organization (see Colquitt, 2001), recent research has shown that the perceived source of procedural justice may also include the supervisor (e.g., Byrne, 1999; Byrne & Cropanzano, 2000; Rupp & Cropanzano, 2002) or coworker (Byrne, 2001).

Interpersonal justice refers to perceptions of whether one is treated with respect and dignity during the enactment of a procedure (Bies & Moag, 1986). Informational justice refers to perceptions of whether an individual has been given sufficient information about a procedure (Greenberg, 1990). Although recent evidence (e.g., Colquitt, 2001) has shown that informational and interpersonal justice should be treated as separate factors, most justice research, thus far, has examined these two factors as a single form of fairness, called interactional justice, as originally introduced by Bies and Moag (1986).

Early studies on employees' responses to a layoff event focused on fairness issues, primarily distributive and procedural justice (e.g., Brockner and colleagues, 1987, 1993). In general, the more fair the layoff is perceived to be by survivors, the less adverse impact there is on survivor attitudes and behavior.



Brockner, J. (1990). Scope of justice in the workplace: How survivors react to co-worker layoffs. *Journal of Social Issues, 46*, 95-106.

Brockner, J., DeWitt, R., Graver, S., and Reed, T. (1990). When it is especially important to explain why: Factors affecting the relationship between managers' explanations of a layoff and survivors' reactions to the layoff. *Journal of Experimental Social Psychology, 26*, 389-407.

Brockner, J., Grover, S., Reed, T., DeWitt, R., & O'Malley, M. (1987). Survivors' reactions to layoffs: We get by with a little help for our friends. *Administrative Science Quarterly, 32*, 526-542.

Brockner, J., Wiesenfeld, B. M., Reed, T., Grover, S., Martin, C. (1993). Interactive effect of job content and context on the reactions of layoff survivors. *Journal of Personality and Social Psychology, 64*, 187-197.

Sanchez, R. J., & Bryne, Z. S. (2004). Leader-member exchange and organizational justice: A new approach. In G. Graen (Ed.), *LMX Leadership: The Series, New Frontiers of Leadership (Vol. 2)*, 193-223. Greenwich, CT: Information Age Publishing.

Survivor Guilt

Given the context of this case and most students' unfamiliarity with layoff situations in general, students may believe that "survivors" would have a positive reaction to still having a job. Several researchers, however, have identified a phenomenon known as survivor guilt (e.g., Brockner, Davy, & Carter, 1985).

A number of researchers have found that a layoff adversely impacts a number of outcomes important to employees and the organization. Survivors of a layoff show decreased levels of job satisfaction (Armstrong-Stassen, Cameron, & Horsburgh, 1996), organizational commitment (Kets de Vries & Balazs, 1997), and job performance (Jalajas & Bommer, 1996).

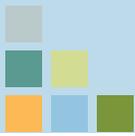
In some layoff situations, three distinct clusters of employees are involved. The first cluster are the employees who are actually laid off. The second cluster are those employees whose jobs have been identified as redundant but are not laid off. The last cluster are those employees who are not directly affected by the layoff activity. Armstrong-Stassen (1997) found that employees who were in danger of being laid off but were not reported lower levels of perceived organizational support and higher levels of burnout than colleagues who were never in danger of being laid off.

Interestingly, in a longitudinal study, Armstrong-Stassen (2002) found that those who were at risk of being laid off initially reported lower level of job satisfaction, organizational commitment, and trust in the organization. This reaction is consistent with current theorizing of the psychological contract between employees and employers (Robinson, 1995). However, after these employees knew that their jobs were safe, they reported higher levels of job satisfaction, organizational commitment, and trust in the organization than those employees whose jobs had never been in danger.

Based on the existing literature, it appears that organizations can anticipate some adverse reactions from survivors. However, these reactions dissipate over a relatively short period of time and can be mitigated by effectively utilizing organizational justice practices.

Armstrong-Stassen, M. (1997). The effect of repeated management downsizing and surplus designation on remaining managers: An exploratory study. *Anxiety, Stress, and Coping, 10*, 377-384.

Armstrong-Stassen, M., Cameron, S. J., & Horsburgli, M. E. (1996). The impact of organizational downsizing on the job satisfaction of nurses. *Canadian Journal of Nursing Administration, 9*, 8-32.



Brockner, J., Davy, J., & Carter, C. (1985). Layoffs, self-esteem, and survivor guilt: motivational, affective, and attitudinal consequences. *Organizational Behavior and Human Decision Processes*, 36, 229-244.

Jalajas, D. S., & Bommer, M. (1996). The effect of downsizing on the behaviors and motivations of survivors. *Organization Development Journal*, 14(2), 45-54.

Kets de Vries, M. F. R., & Balazs, K. (1997). *The downside of downsizing*. *Human Relations*, 50, 11-50.

Robinson, S. (1995). Violation of psychological contracts: Impact on employee attitudes. In L. E. Tetrick & J. Barling (Eds.), *Changing employment relations: Behavioral and social perspectives* (pp. 91-108). Washington, DC: American Psychological Association.

Additional References

Bridges, W. (2003). *Managing Transitions: Making the Most of Change (2nd Edition)*. Cambridge, MA: Perseus Books.

Clarke, M. (2005). The voluntary redundancy option: Carrot or stick? *British Journal of Management*, 16, 245-252.

Hopkins, S. M., & Weathington, B. L. (2006). The relationships between justice perceptions, trust, and employee attitudes in a downsized organization. *The Journal of Psychology*, 140, 477-499.

Iverson, R. D., & Pullman, J. A. (2000). Determinants of voluntary turnover and layoffs in environment of repeated downsizing following a merger: An event history analysis. *Journal of Management*, 26, 977-1003.

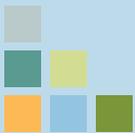
Kammeyer-Mueller, J., & Liao, H. (2006). Workforce reduction and job seeker attraction: Examining job-seekers' reactions to firms' workforce reduction policies. *Human Resource Management*, 45, 585-603.

Krishnan, H. A., Hitt, M. A., & Park, D. (2007). Acquisition premiums, subsequent workforce reductions, and post-acquisition performance. *Journal of Management Studies*, 44, 709-733.

Park, D., & Krishnan, H. A. (2002). The impact of work force reduction on subsequent performance in a major mergers and acquisitions: An exploratory study. *Journal of Business Research*, 55, 285-293.

Pugh, S. D., Skarlicki, D. P., & Passell, B. S. (2003). After the fall: Layoff victims' trust and cynicism in reemployment. *Journal of Occupational and Organizational Psychology*, 76, 201-212.

Zatrack, C. D., & Iverson, R. D. (2006). High-involvement management and workforce reduction: Competitive advantage or disadvantage? *Academy of Management Journal*, 49, 999-1016.



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EXHIBIT A

Below is a portion of the VTI organization chart. As indicated in the main case document, R&D directors and R&D project manager units are not all located in one facility.



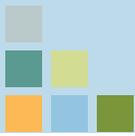


EXHIBIT B

Planning/Communication Timeline

Finalize Impact to Business

Example: 1/14/xx

Company executives work with finance and HR to finalize the effect to the technical roadmap and how that will affect product schedules, human capital, etc. (two months before notification date).

Define Selection Criteria

Example: 1/28/xx

Management works with HR to finalize selection criteria and begin identifying individuals or projects based on key strategic business decisions (six weeks before notification date).

Finalize Selection

Example: 2/11/xx

Finalize selection of affected employees and get legal approval on selections (one month before notification).

Prepare Notification Packets

Example: 3/3/xx

Prepare notification packets for employees (one week before notification date).

Notification Date

Example: 3/10/xx

Immediate managers notify all selected employees for RIF in person; the notification letter and other RIF materials (e.g., severance details, timeline for exiting the tape storage division) are provided to all affected employees; all managers in the tape storage unit as appropriate are notified of the reduction in force happening on-site that day.

Post Notification

Example: 3/10/xx +

Inform customers, key stakeholders and partners as appropriate.

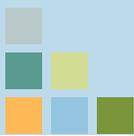


EXHIBIT C

Notification Letter

[Date]

[Employee Name]

Dear [Employee Name]:

We are sorry to inform you that due to ongoing budgetary constraints and continuous efforts to remain competitive, your job has been affected, effective today, [date].

Beginning today, you will be placed in the Valley Technology Inc. (VTI) *Working Notice Period*, a program under the VTI Reduction in Force Plan, for a period of three weeks, during which you will continue to report to work.

If, at the conclusion of the working notice period, you have not secured another position at VTI, you will be released into the *Post-Working Notice Period* program for a period of six weeks. You will continue to receive pay and benefits but will not be required to report to work during this time.

The information given to you in this packet is consistent with the requirements of the Federal Worker Adjustment and Retraining Notification (WARN) Act, and the planned action is permanent.

Your contribution to the tape storage unit at VTI has been invaluable. Your loyalty has been very much appreciated and you will be missed. We have hired a career transition firm to meet with all employees subject to the layoff. They will provide assistance with your job search, including conducting workshops to enhance your résumé, interviewing and job search skills. Please see the enclosed schedule for further details.

In the event that you do not secure another position at VTI, we will offer you a severance package at the end of your six-week post-working notice period that we hope will make your transition to new employment less difficult. The severance package consists of one week of pay for every year of service, with a minimum of two months' severance and a maximum of six months' severance.

Thank you again for your hard work in the tape storage unit. We wish you the best in your future endeavors.

Very truly yours,

Bob Cuellar
CEO

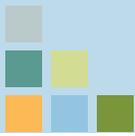


EXHIBIT D

E-mail Message to All Tape Storage Employees on Notification Date

To All Tape Storage Employees,

In order to remain competitive and to ensure a solid cost structure for next year, we have had to make adjustments to our product roadmap which has resulted in a Reduction in Force. Today we are announcing a reduction of [number] employees. This was a very difficult decision for VTI, and especially for the executives in the tape storage unit. As you know, we truly value all of our employees. It is also very difficult for the individuals whose jobs are affected. Human Resources will be working with those affected employees to get as many as possible redeployed to other positions at VTI.

I know everyone is working very hard across the organization to deliver on our product roadmap commitments and we thank you. It remains important to stay focused on those deliverables so we can capitalize on our strong product roadmap into next year.

For a complete list of affected employees, please contact your immediate manager.

Regards,

Stacey York
Vice President
Tape Storage Unit

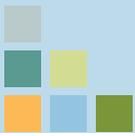


EXHIBIT E

Improved Notification Letter

[Date]

[Employee Name]

Dear [Employee Name]:

As a result of ongoing budgetary constraints and continuous efforts to remain competitive, we have had to make some very difficult business decisions that have resulted in your position being eliminated, effective today, [date].

Beginning today, you will be placed in the Valley Technology Inc. (VTI) Working Notice Period, a program under the VTI Reduction in Force (RIF) Plan, for a period of three weeks, during which you will continue to report to work.

During this time, Career Transitions, Inc. will be meeting with all employees subject to the layoff. They will provide assistance with your job search, including conducting workshops to enhance your résumé, interviewing and job search skills. Please see the enclosed schedule for further details.

If, at the conclusion of the working notice period, you have not secured another position at VTI, you will be released into the Post-Working Notice Period program for a period of six weeks. During this time, you may continue your job search at VTI and will continue to receive pay and benefits, but will not be required to report to work.

If, at the end of the six-week post-working notice period, you have not secured another position at VTI, you will terminate employment with VTI and a severance package will be provided to you, which we hope will make your transition to new employment less difficult. The severance package consists of one week of pay for every year of service, with a minimum of two months' severance and a maximum of six months' severance. An estimate of your severance has been provided for you in this packet.

Your health benefits will continue to be covered through your termination date. After your termination date, you can continue health, dental, and vision coverage for yourself and your dependents for up to 18 months after layoff by applying for COBRA continuation coverage.

Specific RIF Dates:

Notification Date:	EXAMPLE: 3/10/2009
Working Notice Period Begin Date:	EXAMPLE: 3/10/2009
Post-Working Notice Begin Date:	EXAMPLE: 3/31/2009
Termination Date:	EXAMPLE: 5/9/2009

The information given to you in this packet is consistent with the requirements of the Federal Worker Adjustment and Retraining Notification (WARN) Act, and the planned action is permanent.

Your contribution to the tape storage division at VTI has been invaluable. Your loyalty has been very much appreciated and you will be missed.

We wish you the best in your future endeavors.

Very truly yours,

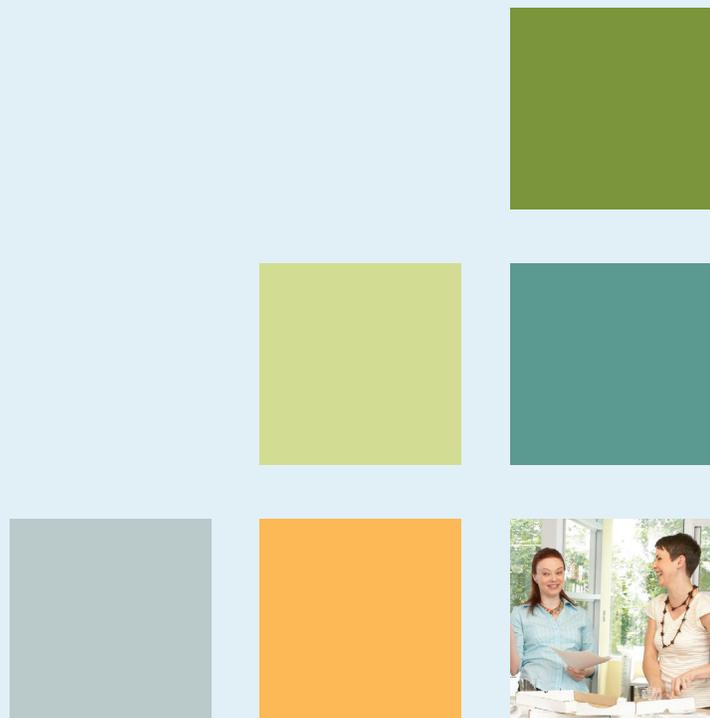
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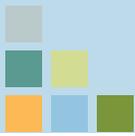
By Rudolph Sanchez, Ph.D., and Mary Bielenberg-Sanchez

Student Workbook

Student Workbook



EMPLOYEE AND
LABOR RELATIONS



Valley Technology Inc.—A Case Study

Introduction

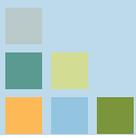
Jan Richter is the senior human resource director for the tape storage division of Valley Technology Inc. (VTI). Jan has been with the company since its inception. Last week, Jan was part of an executive committee meeting in which overall cost reductions surfaced as an issue. One likely option that was explored was to significantly reduce human capital costs. If adopted, this would be the second reduction in human capital to occur in Jan's unit in the past three years. Jan knows that it is important to balance business efficiency considerations with compassion for employees who may lose their jobs after many years with VTI. Additionally, Jan is concerned about the long-term success of the organization and the morale and performance of the employees who remain in the event of a reduction in force (RIF). She knows that the road ahead will be rough and that it will be her responsibility to ensure that the organization navigates that road with care in order to maintain profitability.

Valley Technology Inc. History

VTI, headquartered in San Jose, CA, was established in 1992 during the dot-com boom. It competes in the computer storage industry, specifically offering a tape drive portfolio of products which provides backup and recovery capabilities to organizations. Most recently, VTI introduced a network attached product: a server dedicated to file sharing only. VTI went public in 1998. It is publicly traded on the NASDAQ under the ticker symbol VTI. Over the past 10 years, the stock price has increased in value from \$10.25 to \$45.33. This year, the stock price started at \$35.06; hit a low of \$28.13 in February; and hit its all-time high of \$45.33 in June.

When it went public, VTI had a workforce of 100 employees. Today, VTI has a global workforce of approximately 6,500 regular employees and 1,500 contingent workers. The company's culture has historically been very employee-friendly. For example, even though private pension plans have all but become extinct, VTI provides a pension plan. This defined benefit retirement plan was established to provide a strong base for building retirement security for VTI employees. Benefits under this plan had been funded 100 percent by VTI with no contribution made by the employee. This practice stopped for incoming employees in 2005 and was replaced by an increased percentage match for the existing 401(k) plan, a voluntary program and valuable savings source for employees' future financial needs. Bob Cuellar, VTI's CEO, consistently tells employees, shareholders, and the press that "VTI is successful only because we have the most talented, well-trained, and rewarded employees in the industry." Due to its treatment of employees, VTI has been able to avoid the unionization of its workforce. However, because of the uncertain climate in the high-tech industry and a recent RIF, talk of unionization has arisen in the past two years.

VTI's workforce had grown significantly since 1998, but has only remained steady over the past year. Fortunately, the organizational culture is such that VTI leaders have been able to re-skill and shift resources to cover "hot" and future projects, rather than reducing headcount through a formal RIF. Eighteen months ago, however, the first RIF in VTI history occurred. In that RIF, the tape storage division lost 79 employees, primarily through early retirement incentives. The tape storage division currently has approximately 700 employees. The employees are scattered throughout the United States, including three recently acquired sites in Northern California; Durham, North Carolina; and Houston, Texas. A partial organization chart is provided in Exhibit A.



Current Financial/Market Pressure

While the storage industry is a growing market, VTI did not shift their product mix appropriately to adjust to the decline of “classic” products. VTI lost revenue and market share over the past three quarters due to fierce competition, inappropriate product mix/focus and misaligned sales force incentives. Sales in the European region are down 25 percent.

Disappointing third-quarter results have just been reported, and the executive team held a three-day offsite meeting to discuss the current status and future strategy. To regain market share, management believes that the product mix must shift, which could include a shift in human capital expertise. However, skill sets from tape drives to attached storage are not easily transferable; management is appropriately nervous that to turn VTI’s market position around in a reasonable timeframe, they may have to implement a RIF.

A Difficult Reality

The executive team has determined that the tape storage unit must reduce human capital costs by approximately \$20 million per year. This cost savings figure was derived by calculating the annual salary of an employee plus 30 percent of that salary, which is an estimate of the organizational contribution to the employee’s benefits and other employee costs (e.g., training). With an average salary of \$128,000 in the unit, the \$20 million target is equivalent to 120 employees.

Human Capital Cost Savings Strategies

Jan, the finance department, and other members of the executive team are charged with exploring a reduction in human capital expenditures. Given Jan’s HR expertise, she encourages the team to consider a number of different strategies to reach the budget target while avoiding an involuntary RIF. Each of these strategies includes anticipated savings based on the previous RIF.

Early Retirement

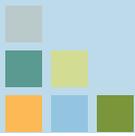
Jan believes that offering early retirement packages is one of the best ways to reduce costs and still produce a favorable outcome for employees. Generally, this involves offering attractive incentives for employees to leave the organization. Eligible employees (based on a combination of the number of years of service at VTI and age) receive one week of severance pay for each year of service and other benefits. For example, an employee whose combination of years of service (with a minimum of 15 years of service) plus age equaled 53 or higher is eligible to take early retirement, with a minimum of six months’ severance and maximum of 12 months’ severance. In addition, VTI would pay 100 percent of health care benefits for five years. In the short term, this is an expensive strategy; it takes three early retirements to equal one involuntary reduction in force. Further, because this approach was used in the previous cost reduction initiative, the unit is in danger of losing too many of its senior employees and the organizational knowledge they possess. Today, 105 (15 percent) of the employees in the tape storage unit are eligible for early retirement.

Voluntary Leave of Absence (VLOA)

VLOA is another voluntary cost reduction strategy in which employees agree to leave VTI for a specified period of time, usually between six months and one year. After that time, employees are eligible to return to the company. This is a short-term strategy. In the previous initiative, very few employees requested a VLOA.

Redeployment

It is possible that employees in the tape storage unit can be redeployed to other VTI units. This would result in a cost savings to the unit and at the same time, retain organizational knowledge, since employees would remain with VTI.



Redeployed employees are immediately taken off the tape storage unit books with no severance package, making this option the most cost-efficient means of meeting the targeted reduction.

Standardized Unit-level Cuts

One simple approach to a cost saving initiative is to have each manager in the unit reduce costs by 20 percent. This would leave the decision and administrative process for implementation to each manager's discretion.

Reduction in Force

Jan finds the involuntary RIF the least attractive option. Not only has VTI attempted to avoid RIFs in the past, this option requires making difficult decisions and delivering difficult messages. Based on the size of the cost reductions necessary, however, it appears that an involuntary RIF will be necessary.

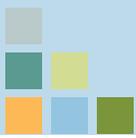
Jan considers three general strategies:

- **Layoff.** This is the most commonly used approach in a RIF. In this scenario, the number of employees needed to reach the cost savings target are identified and released from the organization.
- **Projects.** Rather than using the individual employee as the unit to measure human capital cost, Jan may use projects as the unit. For example, rather than identifying 15 people from around the unit to reduce costs by \$1 million, Jan may find a project(s) with associated employees to save \$1 million.
- **Sites.** Similar to reducing costs by eliminating projects, Jan could close sites in the U.S. In the tape storage unit, possible sites include a 15-person unit in Northern California; a 10-person unit in Durham, North Carolina; and a 20-person unit in Houston, Texas. While an attractive option, all of these sites were acquired within the past two years because of the talent or technology they possessed.

Who Should Stay and Who Should Go

With the agonizing decision to actually initiate a layoff, Jan considers a variety of criteria to determine who to lay off to reach the cost reduction target. She realizes that determining the selection criteria is one of the single most important things to consider. Jan also realizes that the methodology and decisions should be legally defensible to minimize the potential for litigation. Jan needs to consider protected classes, including those over 40 years of age and ethnicity, and ensure that these classes are not adversely impacted by the RIF. Just as with any employment decision, RIFs must be made with the appropriate laws and guidelines in mind.

- **Performance.** One factor to consider is overall job performance. Consider retaining those that exceed job expectations against goals and possess good leadership skills; have a flexible skillset; and are adaptable to change.
- **Time in Job.** Jan realizes that in many organizations, especially unionized companies, seniority is a significant factor in determining whom to lay off. Despite the non-union environment, during the last RIF, the “fairness” of laying off more senior employees who had been “loyal” to the company was questioned.
- **Salary.** From a financial standpoint, eliminating higher-paid employees will likely result in fewer total jobs lost. Jan may consider using job salaries as one of the criteria for the layoff. This criteria should include looking at where employees are paid by job and consider cutting those with higher salaries (e.g., over midpoint in the salary band).
- **Skillset Needed Going Forward.** Based on the overall strategy and product roadmap, Jan should consider what skillsets (technical and non-technical) the unit will need going forward to achieve both business and financial goals.



- **Project Position Eliminated.** Jan might also take into consideration what work the division will no longer be doing and whether specific projects (e.g., terabyte tape project) or positions (e.g., program management of the next tape storage release) could be eliminated.
- **Temporary Headcount.** Another initially attractive option is to consider eliminating the 150 temporary employees in the tape storage unit. Unfortunately, Jan knows that in virtually all cases, the temporary employees were hired to address critical skill gaps that existed in the regular employee base.

Realizing that a layoff is a likely option, Jan drafts a timeline and two communication messages. Exhibit B presents the planning and communication timeline. The draft Notification Letter to affected employees (Exhibit C) and the draft e-mail message to all VTI tape storage employees (Exhibit D) are also provided.

The Decision-making Process

After managers in the tape storage unit agreed on the set of criteria, each manager reviewed all direct reports and generated a list of possible employees to lay off. A brief explanation of why each individual was selected was provided. The leadership team of the tape storage unit made the final determination of which specific employees would be laid off. This list was subject to a legal review prior to implementation.

The Notification Process

The process to notify affected employees was reasonably effective during the previous layoff. Regardless of the number of employees subject to layoff, VTI decided to adhere to the guidelines outlined in the WARN Act, even though it was not legally required to do so. Based on the previous experience, Jan prepared two documents to assist in the notification process. Since affected employees' immediate supervisors were the individuals notifying those employees in person, Jan developed an outline of points for them to cover and a notification letter to be delivered during the meetings.

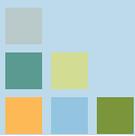
The Survivors

After the actual layoff, Jan knows that it is important to help the organization, especially the tape storage unit, return to normalcy and productivity. To help re-engage the staff, it is critical that the management team be visible and available to both those affected by the RIF and those who survived. Organizational leaders must be available to answer questions, discuss the future, honor the past, and, in general, be available for employees who just want to talk about what happened or their personal situation. Using a model such as William Bridges' "Managing Transitions—Making the Most of Change" (2003), where you say goodbye to the 'known', shift into a neutral state and then move forward, is vital to the success of this type of transition.

Discussion Questions

It is obvious that Jan has a lot of work to do. Please develop responses to the following questions as instructed by the facilitator.

1. What would you recommend as the best mix of cost reduction strategies (e.g., reduction in force, redeployment, early retirement)? What are the strengths and weaknesses of each of the strategies listed? Can you think of any additional strategies?
2. Assuming that Jan will need to orchestrate a layoff as part of the cost savings solution, what criteria should she establish to identify the employees to lay off? What are the pros and cons of each criterion? Are there other criteria that can be used?
3. What is your assessment of the two draft communications provided (the letter to affected employees and the e-mail to all employees)? Is there anything you would change? If so, what?



Valley Technology Inc.—A Case Study

EXHIBIT A

Below is a portion of the VTI organization chart. As indicated in the main case document, R&D directors and R&D project manager units are not all located in one facility.



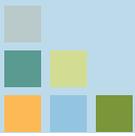


EXHIBIT B

Planning/Communication Timeline

Finalize Impact to Business

Example: 1/14/xx

Company executives work with finance and HR to finalize the effect to the technical roadmap and how that will affect product schedules, human capital, etc. (two months before notification date).

Define Selection Criteria

Example: 1/28/xx

Management works with HR to finalize selection criteria and begin identifying individuals or projects based on key strategic business decisions (six weeks before notification date).

Finalize Selection

Example: 2/11/xx

Finalize selection of affected employees and get legal approval on selections (one month before notification).

Prepare Notification Packets

Example: 3/3/xx

Prepare notification packets for employees (one week before notification date).

Notification Date

Example: 3/10/xx

Immediate managers notify all selected employees for RIF in person; the notification letter and other RIF materials (e.g., severance details, timeline for exiting the tape storage division) are provided to all affected employees; all managers in the tape storage unit as appropriate are notified of the reduction in force happening on-site that day.

Post Notification

Example: 3/10/xx +

Inform customers, key stakeholders and partners as appropriate.

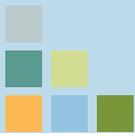


EXHIBIT C

Notification Letter

[Date]

[Employee Name]

Dear [Employee Name]:

We are sorry to inform you that due to ongoing budgetary constraints and continuous efforts to remain competitive, your job has been affected, effective today, [date].

Beginning today, you will be placed in the Valley Technology Inc. (VTI) *Working Notice Period*, a program under the VTI Reduction in Force Plan, for a period of three weeks, during which you will continue to report to work.

If, at the conclusion of the working notice period, you have not secured another position at VTI, you will be released into the *Post-Working Notice Period* program for a period of six weeks. You will continue to receive pay and benefits but will not be required to report to work during this time.

The information given to you in this packet is consistent with the requirements of the Federal Worker Adjustment and Retraining Notification (WARN) Act, and the planned action is permanent.

Your contribution to the tape storage unit at VTI has been invaluable. Your loyalty has been very much appreciated and you will be missed. We have hired a career transition firm to meet with all employees subject to the layoff. They will provide assistance with your job search, including conducting workshops to enhance your résumé, interviewing and job search skills. Please see the enclosed schedule for further details.

In the event that you do not secure another position at VTI, we will offer you a severance package at the end of your six-week post-working notice period that we hope will make your transition to new employment less difficult. The severance package consists of one week of pay for every year of service, with a minimum of two months' severance and a maximum of six months' severance.

Thank you again for your hard work in the tape storage unit. We wish you the best in your future endeavors.

Very truly yours,

Bob Cuellar
CEO

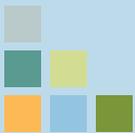


EXHIBIT D

E-mail Message to All Tape Storage Employees on Notification Date

To All Tape Storage Employees,

In order to remain competitive and to ensure a solid cost structure for next year, we have had to make adjustments to our product roadmap which has resulted in a Reduction in Force. Today we are announcing a reduction of [number] employees. This was a very difficult decision for VTI, and especially for the executives in the tape storage unit. As you know, we truly value all of our employees. It is also very difficult for the individuals whose jobs are affected. Human Resources will be working with those affected employees to get as many as possible redeployed to other positions at VTI.

I know everyone is working very hard across the organization to deliver on our product roadmap commitments and we thank you. It remains important to stay focused on those deliverables so we can capitalize on our strong product roadmap into next year.

For a complete list of affected employees, please contact your immediate manager.

Regards,

Stacey York
Vice President
Tape Storage Unit

SHRMTM

SOCIETY FOR HUMAN
RESOURCE MANAGEMENT

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