

Resource Reallocation and Headcount Efficiency versus Across the Board Cuts

Strategically Allocating Resources

Across the board cuts in headcount don't work.

They have short-term impact but more often than not create long-term capability deficiencies that often take years to overcome.

However, most organizations have inefficiencies built into their current allocation of resources, that when addressed systematically can more than fund financial shortfalls, while building for the future rather than mortgaging the future for short-term gain.

Resource allocation is a leadership and management responsibility that should not be delegated too quickly or worse yet be abdicated by way of an across the board headcount reduction. Resource Allocation includes 3 big buckets.

1. Strategic Allocation of Resources
2. Tactical Allocation of Resources
3. Technology Enabled Leverage of Resources

Resource allocation decisions must be based first on strategic priorities first with clear guidance from senior leadership on those priorities. It is those priorities that then drive allocation of resources.

When decisions are made to reallocate resources, there are methods that can minimize the impact of resource reallocation and in fact leave an organization much healthier than when it started the activity. Methods for reallocation include:

1. Diversification (Selling or Spinning of Parts of the business that do not fit strategically or can be accomplished more effectively as a separate business)
2. Process re-engineering (Dramatically changing processes and using technology and redesigned jobs to accomplish work much more productively)
3. Outsourcing (Using outside vendors to accomplish work that they can handle more efficiently or effectively)
4. Resource attrition and incentive packages

The appropriateness of each of these methods for reallocation should be considered when executing resource reallocation decisions.

Resource Allocation

Strategic Allocation of Resources

Before deciding on reduction goals, allocate resources strategically against business strategy.

1. Growth versus Enabling and Supporting Functions – Don't make cuts in growth functions, make them more efficient and effective, and invest in them. (Demand Creation, Innovation) Be especially critical of Enabling and Support Functions. Leverage them to the highest degree possible, use technology where possible, and consider outsourcing or spinning off as separate support businesses. Set clear, differentiated, resource allocation guidelines for Growth, Enabling, and Support functions.
2. Strategic initiatives – don't cripple strategic initiatives by starving them of the resources they need to succeed. If they are truly strategic then fund them. If they are not really strategic stop them or moth ball them. Set aside sufficient investment to make strategic initiatives successful.
3. Invest in mega markets and mega cities. Make sure to fund areas of the business that can grow.
4. More sharply focus the business. Stop doing legacy things that no longer add value. Move to eliminate redundancies and unnecessary "safety nets."

Use the decisions around strategic resource allocation as a guide to making tactical decisions on resource reallocation.

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Tactical Reallocation of Resources

1. Focus of Value Added Activities - for growth functions, those that support the consumer, for enabling and support functions, those that are legally required or directly impact growth functions

Wave One – Improve Current Headcount Efficiency

Simultaneously evaluate three tracks to identify efficiencies in how headcount is deployed

- Eliminate Non-Value Added Activities
- Eliminate/Consolidate Duplicative Functions
- Improve Efficiencies in What You are Currently Doing

Estimate projected headcount savings

2. Focus on Core Activities

Wave Two – Evaluate Alternatives for Accomplishing Non-core Activities

Identify “non-core” activities and evaluate alternatives for accomplishing

- Transfer accountabilities to other functions
- Outsource Non-Core Functions (Cost Analysis)
- Cut non-core activities

Estimate projected headcount savings

3. Prioritize value added activities

Wave Three – Identify Value Added Activities You Will Stop Doing

Analyze the return of current value added activities and prioritize

- Evaluate Return on Value Added Activities
- Prioritize Value Added Activities (Revenue/Headcount)
- Stop Value Added Activities with unacceptable returns

Estimate projected headcount savings

4. Make remaining cuts

Wave Four – Make Remaining Cuts

Spread remaining cuts across the organization

- “Peanut Butter” Remaining Cuts

Estimate projected headcount savings

Technology Enabled Leverage of Resources

Cutting resources without a viable alternative to getting the work done can cripple a businesses ability to thrive over the long-term. Before cutting resources, evaluate the opportunity to leverage technology and capital investments to improve productivity.

1. Transaction processing – primarily administrative functions
2. Process Redesign and Decision Support – providing one source of info and redesign jobs to enable quicker decision making
3. Technology enabled work – 3-D Design, CAD

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Methods for Reallocation

Ideally you want to minimize impact of resource reallocation. Using creative methods, the process can actually energize the work force rather than serve as a disruption.

1. Diversification (Selling or Spinning of Parts of the business that do not fit strategically or can be accomplished more effectively as a separate business – employee owned)
 - a. Identify parts of the business that could be more efficiently and effectively run as a separate entity
 - b. Evaluate the impact of diversification and the alternatives available.
2. Outsourcing (Using outside vendors to accomplish work that they can handle more efficiently or effectively – potentially employee owned enterprises)
 - a. Are there outside companies or services available that could do the work more effectively and efficiently.
 - b. Evaluate the impact on cost and control of outsourcing functions or portions of functions.
3. Process re-engineering (Dramatically changing processes and using technology and redesigned jobs to accomplish work much more productively)
 - a. Are there technologies and methods that could fundamentally change the way that the work is being accomplished?
 - b. What kind of investment would be needed?
 - c. What kind of new skills will be required?
4. Resource attrition and incentive packages
 - a. How will cuts be made?
 - b. Evaluate the options and consider incentive packages that make necessary cuts in resources as part of a natural attrition process.

Managing Resource Reallocation

Reallocation needs to be managed. The cultural impact on the work environment can be more damaging the actual act of reallocating and cutting resources. The damage can be long lasting.

Just as resource allocation is a leadership accountability, managing the process is also a key to effective leadership.

There are two keys to effectively managing the process. The first is communication and the second is managing the business impact.

Communication

The messaging around resource reallocation is critical. It will determine how people react to the process and the outcomes of the process. Transparency is critical. People want to first understand what this will mean to them. Until they understand this, they will have difficulty hearing anything else. Once they understand the impact on them, they want to know why this is happening.

Managing Business Impact

Take a system wide view of the impact of resource reallocation. Look for cross system synergies and be careful of multiple reductions in various parts of the enterprise that compound effect can be damaging to the long-term health of the organization. Don't get caught in the "make the quarterly numbers" mentality at the risk of seriously impacting the future health of the business.

Final Thoughts

Ideally resource reallocation is an ongoing process. It must be part of the strategy and budgeting routines that keep a company healthy over the long run. The critical resource allocation questions must be asked as part of a regular management routine, not part of a crisis response.