

Final Exam Case Study

Please read ALL directions below before starting your final assignment.

INSTRUCTIONS:

- Read the entire case study carefully (including exhibits A – D) and then respond to the seven Discussion Questions on page 6. Answer all questions and all parts of each question.
- Develop each answer to the fullest extent possible, including citations from outside resources and course resources, where applicable, to support your arguments.
- Submit your assignment as a separate MS Word document in your assignments folder. **Do not type your answers into the case study document.**
- Include a Cover Page with Name, Date, and Title of Assignment.
- Do not include the original question. Use the following format: Question 1, Question 2, etc.
- Each response should be written in *complete sentences*, double-spaced and spell-checked. Use 12-point Times New Roman font with 1-inch margins on all sides.
- Include page numbers according to APA formatting guidelines.
- Include citations in APA format at the end of each answer.
- You must submit to the assignment link by the due date (final day of class). A missing assignment will be assigned a grade of 0.

Jenna Richards is the senior human resource director for the tape storage division of Vully Technology Inc. (VTI). Jenna has been with the company since its inception. Last week, Jenna 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 Jenna's unit in the past three years. Jenna 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, Jenna 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.

Vulley 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

Jenna, the finance department, and other members of the executive team are charged with exploring a reduction in human capital expenditures. Given Jenna'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

Jenna 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

Jenna 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, Jenna may use projects as the unit. For example, rather than identifying 15 people from around the unit to reduce costs by \$1 million, Jenna may find a project(s) with associated employees to save \$1 million.
- **Sites.** Similar to reducing costs by eliminating projects, Jenna 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, Jenna 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. Jenna also realizes that the methodology and decisions should be legally defensible to minimize the potential for litigation. Jenna 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. These 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, Jenna 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, Jenna 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, Jenna 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:

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? Do you agree that a reduction in force is the best approach? Why or why not?
2. Assume that Jenna will need to orchestrate a layoff as part of the cost savings solution. Evaluate the different criteria options proposed to select the employees to lay off (e.g., performance, time in job, salary, skillset needed going forward, project position eliminated, and temporary headcount). What are the advantages of each option? What are the risks of each option? Are there other criteria that can be used? If you were Jenna, which criteria would you be inclined to use and why?
3. Assume performance is used as one of the selection criteria. Discuss in detail the specific performance data Jenna will need to obtain and how she will access it.
4. What steps should Jenna take to minimize the risk of wrongful terminations? What legal issues should be considered?

5. 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?
6. How can Jenna address negative morale within the department, increase employee motivation and engagement, and mitigate any retention issues?
7. How can Jenna continue to ensure high performance among remaining team members? How can she proactively mitigate performance issues?

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 Vulley 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 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

