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The Alliance Bulletin

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E-Newsletter

May 2009

Dear Sam,

ACC offers this newsletter as a means of sharing thought provoking and stimulating articles to our clients and associates. We hope you find them of interest and invite your submission of articles for future newsletters that you feel would be of interest to our readers. We also invite your input with regards to this change of format from a newsletter mailing to an e-newsletter.



Sam Fallenbaum

An opportunity for change

Many businesses will undoubtedly find these times to be too challenging and, as a result, will either voluntarily decide to wind-up or, alternatively, be forced into liquidation. In some situations, businesses should have been closed much earlier, since they were run using poor business practices. They were poorly managed and only through some good luck and poor bank lending were they kept in business. In these difficult economic times the common feeling is one of doom and gloom.

Opportunities exist.

Difficult economic times provide the best opportunity to execute good management practices. Take actions that in good times would be seen as being stingy or mean, but in bad times, are seen as being necessary. It is important that managers make the adjustment from a "good times" mindset to a "bad times" mindset as quickly as possible

Hire employees terminated by large employers.

During periods of recession, unemployment rises. Some firms reduce staff indiscriminately and do not make sound assessments of the staff that they are letting go. The result is that well-qualified individuals become available in the marketplace. In some cases, they have been terminated; in other cases, they have been pushed or forced into early retirement, but they are still quality employees. How is this an opportunity? The smaller employer is often able to hire employees terminated by a large employer at a discount price. The employee pushed into early retirement will likely have received a "package" and will continue to receive some form of post-retirement income. Such employees do not need as great a salary as they received before in order to maintain their standard of living. They could very well be capable of a decade or more of productive working life. Other employees who have been terminated are often interested in establishing a career with a smaller employer, particularly if that employer has good business practices. They have had enough with big companies.

Get rid of bad human resources practices.

I wouldn't suggest that an employer introduce draconian practices just to save a few dollars. Rather, recessionary times give an employer the opportunity to review all expenses relating to employees: benefits,

vacations, compensation practices as well as training and development.

Do all employees use all the vacations to which they are entitled? In the past couple of decades, vacation entitlement has risen to the point where many employees can't or don't take all their vacations. In some cases, they can't afford to take them; in other cases, they don't want them. A reduction of one week of vacation has a cost saving close to 2% of payroll. Flex time and other similar practices are often being abused. The removal of such benefits will not usually affect your hardest workers. To remove it or tighten up the conditions of such benefits will only improve productivity. Given the critical business times, any employee backlash can be expected to be minimal.

The concept of annual salary increases needs to be challenged. It is possible that some employers have been too generous in the past and thus, costs have gotten out of line. Now is the time to institute some discipline in the company's compensation program.

One of the biggest errors we find in compensation programs of smaller organizations is the lack of a cap/limit on jobs. This is most likely to happen in those organizations that habitually have annual increases. After a period of time, particularly if positions are filled by long-term employees, employers often pay over the market norm for such positions.

Review sales costs.

Over the years, regardless of the industry, the sales area seems to acquire practices that are costly and have little or no value added. In these difficult times, attention should be paid to the work that is being performed by the sales staff. This review should cover sales territories, salespersons' number of clients and sales compensation, particularly if the compensation is primarily commission.

Variable compensation was developed to stimulate productivity. However, if the program is too rich, the opposite effect will occur. It is responsible management to note whether the rate of the salesperson's reward is greater than that which the business receives.

The opportunities that have been set out are by no means all inclusive. Some may apply to one business and not to another. However, "bad times" give management the opportunity to introduce change and get better employee acceptance than at any other time. However, there are some provisos that must be kept in mind:

Communicate any changes that are going to be made. Communicate does not just mean telling employees that one thing or another is changing. It is vital that a case be made for each change and that management tries to get as much "buy-in" from the employees as possible. Don't introduce changes that negatively affect employees and then do something that employees would perceive as being wasteful or lavish. Change the old maxim to read "do unto yourself what you have just done to your employees."



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