THINKING OUTSIDE THE SQUARE:
Managing employment costs during the recession

Many recent newspaper articles have consistently suggested that employees may well bear much of the burden of cost controls in response to current global recessionary conditions:

- *Pay rises expect to flatten* (the Dominion Post, Friday, 9 January, 2009)
- *Third of firms to shed staff as business confidence collapses* (NZ Herald, Tuesday, 13 January, 2009)

Readers of such articles could be forgiven for assuming that reductions in salary increases and reductions in staffing levels are the only options being considered by many employers as a means of managing employment costs to cope with reduced budgetary levels.

In my view both these responses are high risk strategies. The history of restructuring organisations indicates very clearly that where there is an increased threat of staff cuts, either through attrition (i.e. not replacing staff who leave) or through restructuring the organisation, the first people to "vote with their feet" are likely to be the higher performers; that is, those who are most marketable in a tight employment market, and the very staff you need to hold on to in order to ride out the recession.

Perceptions of reduced rewards and recognition of performance and contribution can have a similar effect; marketable employees who are confident they can earn higher rewards elsewhere will leave early.

Given that the aim is to manage employment costs, while maintaining a viable business and meeting organisational objectives, these reactions may render these initiatives at least partially counter-productive.

With employment costs representing a large slice of the operating budget for many organisations, clearly it is an area where there is room for significant savings. Do these savings need to be realised only through staff cuts and wage freezes though?

Surely the prudent employer will not rule out other options for increasing the efficiency of employment systems, to ensure best use of funding, thereby moderating the impact of these more traditional "ultimate solutions"?

My attention was caught recently by an article which appeared in the New Zealand Herald, in which IT commentator, Brett Roberts, argued the case for using recent IT developments as a means of containing cost (*Tech tips: Plenty of gains to be made by keeping up with technology:* NZ Herald, Thursday 8 January 2009).

That article highlights four significant developments:

- *Virtualisation*, which makes it possible to run more than one software application on a single server, in order to optimise usage of expensive hardware resources
- *Cloud computing*, whereby business software is hosted in massive data centres away from your premises, and accessed via the internet
- *Software as a service*, a sibling of Cloud computing, in which software can be purchased as a utility service, often on a "pay as you go" basis
- *Unified Communications and collaboration software*, bringing together all business communications platforms, including mail, messaging and calling, or allowing many people to work on a single document at once, without creating version control issues.

The HR context

While that article was directed towards general business applications there is little doubt that the same developments offer opportunities within the Human Resources field.

All four developments offer some scope for HR savings, however the real gains may be in the areas of *Cloud computing* and *Software as a Service*.

Traditionally where technology has been applied to core HR processes, the solutions available have required installation on a local server. The one

exception to this has been payroll systems, where bureau services, and more recently, Internet based services, have become available. Increasingly the same principles are now starting to be applied to other core HR services.

Such solutions offer significant potential for reducing the cost of managing Human Resources processes. The key to optimising this gain however is in ensuring that you pay only for those parts of the service which are essential in your business. It no longer makes sense to pay for all the "bells and whistles", including functionality which will be used rarely, when for a much lower licence fee, and reduced implementation cost, a standardised system will meet the majority of your needs.

For example, while it is now possible to customIse many HR systems, such as Performance Management processes, Job evaluation systems, and Payroll services, to meet specific needs of an individual organisation, the question is, does this investment bring any real benefit?

Are you confident that the increased cost of customisation, implementation, and post implementation support (additional training, specialist support for a non-standard site) brings benefits which outweigh that additional cost?

In the current environment I suspect that in many cases the "additional benefits "are questionable: perhaps a standard system, and all the cost savings that realises, would be a better solution. At the very least, it would be more defensible, particularly where there are threats of staff lay-offs.

HR Software as a Service

By definition these systems are delivered over the Internet, providing flexibility for a wide range of different pricing options, including "transactional" or "pay as you go" pricing schemes. Such licences are clearly attractive as they allow users to pay only for the actual use of the service rather than the privilege of having it available for use *if needed*.

More significantly these systems reduce the cost in other ways. Locally installed software can be expensive to maintain and update: that is often reflected in high licence fees, or in additional support costs.

Under the SaaS model the cost of support is significantly reduced as any support required can generally be carried out remotely. Significantly, where the system is properly designed there is often little need for ongoing support from the vendor. At the risk of upsetting some of my competitors, any system which increases the cost of use through "consultant capture" (where systems work effectively only if supported on site by the vendor – at an additional cost of course) is unlikely to be attractive to users in the current challenging circumstances.

These systems are already a reality in the HR environment: the question is, just how well used are they, as many potential users may see the cost of migration from their existing system is itself an impediment to moving.

That may be true if the system is customised. As noted above however, many of these systems are readily available in standard format, with relatively low implementation costs. The cost of migration and the lower usage fees may actually be lower than your current costs. It is certainly worth exploring the alternatives.

Even a relatively superficial review of what is available, based on the adverts in recent issues of this magazine indicates that there is now a wide range of HR systems available on a SaaS basis, including for example:

Salary Surveys

- CubikSurvey
- Hay PayNet

Job evaluation and remuneration management systems

- JE Leader Online

- Remuneration Decision Assistant (Pivot Software)

Performance Management

- Appraisal-Smart (McBride HR)
- Sonar6

With careful selection of the right system, and management of implementation costs, used wisely these systems can significantly reduce the cost of employment management programmes.

If that in turn reduces the impact of the recession, by moderating the need for restructuring and layoffs, or makes more funding available for increases, this must be an attractive option for many employers.

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