

INSIGHTS

Four Signs of Reactionary Labor Strategy (And Why You Should Avoid Them)

Most organizations believe they have a labor strategy. After all, labor is typically the largest controllable cost in a business, and its optimization pushes performance, reduces waste, and maximizes margins and profits. Yet few firms are designing a strategy that is thoughtful and deliberate when it comes to their human capital. Instead, many firms' concepts of labor strategy occur by accident or default, based on responses and reactions to events as they occur. While this reactionary approach to labor strategy may be natural, it is short sighted and ultimately not effective in the long run.

Effective labor strategy does not occur by chance. Without a thoughtful, considered, and calculated labor strategy, performance will inevitably be sub-optimized, and dollars will be wasted across every hour, shift, and day. It is essential, in the current competitive economy, to have a deep understanding of how to deploy a labor force along with a vetted plan for when to make agile adjustments.

A NOTE ON INCREASING TURNOVER AND ABSENTEEISM

The simplest indicators that a labor strategy does not meet employee needs are problems with turnover and absenteeism. If the basic needs of employees, such as time off when necessary or reasonable overtime, are not met,

employees will start to break a reactionary labor strategy. Top-line growth can often hide growing discontent at the employee level. Facilities often start with a five-day-per-week operation and then use overtime on weekends as volume grows. At first, the overtime strategy works well; many employees welcome the opportunity to make more money. But as volume continues to grow, employees are forced to work more and more six or seven-day weeks, with little or no time off. Absenteeism and turnover rates climb, while work quality and employee health and safety suffer. Problems with absenteeism and turnover cause a vicious cycle, where the most reliable employees pick up extra burdens, increasing stress and often leading to resignations and further turnover. A labor force "death spiral" can be the result.

With this in mind, below are four representative signs of a reactionary labor approach. If these resonate as true for your organization, perhaps it is time to reexamine how you and your teams approach labor strategy. Organizations we partner with typically identify opportunities between 11% and 17% of total payroll costs, while increasing employee engagement and the ability to better react to changes in their customer's requirements. A focused approach based on best practices and deep labor strategy expertise can uncover all this potential within 4 to 6 weeks.

1 HISTORICAL PRACTICE AS STRATEGY

If your organization's first reflexive response to potential labor strategy changes is to lean on historical precedence ("It has always been this way!"), then you have a potentially reactionary approach to labor. A series of routine actions, a shift schedule that has been in place for years, past "best" practices, outdated pay rules, and other suboptimal, status quo procedures, coupled with seemingly unpredictable situations and overarching disruption, create value destroying practices masquerading as "labor strategy". Though historical precedent has taken your organization to where it is today, there is no guarantee historical practice will accelerate the firm forward successfully into the future. Do we have a set of project guiding principles that include operational/performance improvement metrics and objectives? This is an extremely critical step to offset the rising cost of capital with reduced operational costs from performance improvement initiatives.

3 COST REDUCTION AS STRATEGY

In contrast to top-line growth as strategy, organizations will often emphasize cost reduction as their labor strategy. Cost reduction is an outcome, however, not a strategy, and good labor strategy is about much more than costs. While human capital is certainly an expense, employees are also the largest source of value creation and innovation. If human capital is reidentified as an asset versus a cost, it then becomes clear that this asset will only create value if it is well-managed. A labor strategy must incorporate what employees want at work and take work-life balance into account. Labor strategies that focus only on business drivers and ignore employees are shortsighted. They will, at best, foster employee disengagement and, at worst, drive margin-destroying behavior among the workforce.

2 GOALS (ALONE) AS STRATEGY

If asked about labor strategy, many leaders respond not with strategic initiatives tied to labor, but rather with specific goals. For example, too often, "lowest unit labor cost" is shared as the overarching strategy. That may be the right end state goal for organizations, but it is the goal, not the strategy.

Confusing goals for strategy often occurs because leaders lack depth of knowledge around the complexities inherent to labor strategy. Labor strategy defines the key initiatives (the "what"), the owners (the "who"), and the actions necessary for success (the "how"). Goals are the targeted results derived from a strategy's realization. Focusing on goals is effective only if a strategy has been defined to drive the organization toward the desired goal. Otherwise, claiming a goal without planning how to get there is, at best, like a motivating slogan: inspiring, but not directive enough to move the needle.

4 TECHNOLOGY & AUTOMATION AS STRATEGY

Often as a component of cost reduction-as-strategy, companies pursue reduction in headcount via technology and automation. While technology and automation are critical components to reduce costs and innovate for the future, there is a paradoxical result of relying solely on automation as a labor strategy. As fewer employees are utilized, each produces more per person. This situation makes each individual member of the organization more crucial to success. Therefore, employee engagement and retention become paramount to success. Yet, employee engagement is too often overlooked in the execution of a reactionary labor approach.

BE PROACTIVE

Ultimately, these four signs (and many others) indicate organizations are leveraging a reactionary approach to labor. Yet there is value in each of these approaches. The value can only be derived, however, via the creation of a well-designed, proactive labor strategy. This strategy holistically considers historical best practices, future-facing goal creation, top-line growth efforts, cost-reduction considerations, and the use of technology and automation. In addition, a well-designed, proactive labor strategy includes the key overarching factor: employees. The ability to recruit, retain, and engage great employees over time is crucial in any labor strategy.

A labor strategy cannot be developed during a hastily scheduled Friday afternoon meeting. It requires

commitment to a complete review of labor and volume numbers, an integrated approach to include all employees, and a thorough understanding of customer services levels and levers. Only after these elements are identified, understood, and balanced can a cohesive and proactive labor strategy be developed.

If your organization is encountering the above signs, be ready to pivot toward a proactive, intentional labor strategy that reconsiders the central role of labor as a driving force for value creation. Be prepared to rethink labor strategy, because the competition is only getting fiercer, and your employees will ultimately join you in the journey or find another organization to call home.



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