

The Unkindest Cut May Be Easy But Is It Necessary?

**“You can dream, create, design, and build the most wonderful place in the world...but it takes people to make it a reality.”
– Walt Disney**

The easiest thing for businesses to do when times are tough is to cut. And, one of the primary cuts is staffing. It seems to make sense because personnel costs (salary, benefits, vacations, etc.) are the largest expense for most business operations.

But that is the primary problem with the way most companies view people. I say *people* because using the term personnel makes things so impersonal and – something that may please an MBA accounting specialist – it reduces them to just another ledger item to consider.

Understand, before we go any further, I am not saying that staff cutbacks may not be necessary. In some instances, companies may have hired additional staff because they are ill-organized. Thus, having more bodies enables them to overcome those organizational deficiencies, at least in the short term. Eventually, the organizational issues will become more problematical during times of economic turmoil like the circumstances of the past couple of years. It is those organizational problems that I want to discuss now.

When I say cutting is the easiest thing to do I say that because it really takes little imagination to do so. And, in many cases, it is a reflex action by management or an owner which illustrates they have no real understanding of their business.

First, cutting staff, which often times includes people with critical skills that seem excessive when business is slow, may really impede and complicate the company's ability to react to customer needs when business picks up again. More importantly, failing to fully evaluate the impact on the business's future by losing key personnel (a literal “brain drain” if business skills and information are not documented or captured by technology) literally requires the business to rebuild key elements if/when the business climate improves. Then, instead of being positioned to move quickly, the management team needs to hire, train, and hope the newly hired replacements become productive quickly. In many instances, the business remains behind the competitive curve and never fully recovers.

In those circumstances, the cuts which seemed prudent now become a source of destruction. Had management been a bit more creative, a bit more imaginative, and a bit more daring in seeking solutions over and above the most obvious and easiest to implement the business might be a better position because of the downturn rather than the other way around.

One of the primary reasons most businesses do not do the right thing is because of how they view their employees. As I noted in the first paragraph, from an accounting perspective, employees are merely expenses. Somehow, however, great businesses, exemplary businesses always seem to have committed, devoted, involved, and highly productive employees. This is true even in industries where there is much flagellation

among competitors about how to compete, deal with personnel matters, avoid bankruptcy, and so on and on. Perhaps it is because these dynamic companies view their employees as critical assets, not merely expenses.

Southwest Airlines, for example, has never cut personnel in their nearly forty years of existence. They have managed to do so in a highly volatile industry where fuel prices, over capacity, customer dissatisfaction, labor problems, re-organizations and even bankruptcies are common occurrences. Despite all these industry problems somehow Southwest remains highly efficient, productive, and, most important, profitable. And, they do this while operating with a relatively fixed, easy-to-administer, and easy-to-understand price structure. In addition, they have been able to avoid the ever increasing “add on costs” (Southwest successfully touts their “bags fly free”, for example) other airlines are attaching to their service.

How and why can they do this? Aside from prudent fuel buying decisions and their streamlined operational philosophy, it is their organizational vision from which they have never wavered. Understand, when Herb Kelleher originally outlined their business plan on a cocktail napkin in 1973 (apparently an apocryphal story, yet still instructive) he understood what he wanted to do and with what he was competing. His initial competition, as he saw it, was not the Uniteds, Americans, or other airline behemoths. No, he saw his competition as the bus line. More specifically, he was targeting Continental Trailways. In other words, he wanted to get grandma from Dallas to Houston in one hour, not five.

The airline certainly has grown since its inception but it is because of an unwavering adherence to that initial simplistic, yet highly focused vision, which Southwest has thrived. Southwest uses only Boeing 737s configured to their standards – no food service galleys, for example. This simplifies maintenance and substitution of equipment as well as the ability to use a wider range of airports for service. This also simplifies training of pilots and service personnel. It enables any staff member to substitute and perform a variety of duties, no matter where or when. Also, management believes in training employees well and empowering them to make customer satisfaction decisions at the point wherever they interact with the customer.

Despite all the operational simplification and consistency of implementation, it is this people element that enabled Mr. Kelleher to build, innovate, and sustain performance over the years. He saw his employees and his customers as the most critical components of business. And, he knew that people (and the corresponding culture) not the supportive infrastructure – accounting, advertising, reservation systems, or assets like fuel trucks and airplanes – were what mattered most. He understood that *people* who were empowered to serve their customers were critical to the airline’s initial and future success. It is a perspective that would benefit many companies if they would only stop to consider it.

**“Culture is one of the most precious things a company has,
so you must work harder at it than anything else.”
– Herb Kelleher**