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Sixth Sense: A Tough Decision

Six business leaders give us their thoughts on making the call to shut down a division, operation or company, knowing the ramifications for layoffs and lost revenue.

By Bill Paddack

Randy Zook

President & CEO
Arkansas State Chamber of Commerce
and the Associated Industries of Arkansas
Little Rock

Only change is constant. That maxim is nowhere more pertinent than in a business setting. Markets change, customer expectations change, supplier prices change, government regulations change and on and on. It's a daunting task to adapt and continue to thrive among all these shifting forces. And sometimes a business just can't keep up and consequently must make major adjustments. When a plant or office must be closed and its employees let go, the owners or managers usually do everything reasonable to mitigate the impact. Severance pay, transfers to other locations and extended benefit programs may be part of the total effort.

Economists call the pain of these dislocations the "creative destruction" of free-market capitalism. Businesses fail because of a host of reasons not the least of which is disruptive technology. Think of the classic example of buggy whip makers when automobiles started replacing horses for transportation. Bad news for buggy whip factory employees, but great news for most others. Progress and improvement can often entail short-term pain for some.

The best way to prepare for potential dislocation is just that: expect it and prepare for it. Acquiring new skills, saving for the rainy day, being prepared to move to new opportunities are just a few smart steps we can all take.

Donna Townsell

Senior Executive Vice President of Corporate Efficiencies
Home BancShares and Centennial Bank
Conway

Centennial Bank has completed 14 acquisitions since 2010. With a bank acquisition you encounter two potential areas of duplication. One is back office personnel and the other could be branches when we acquire within our footprint.

You don't see two pitchers on the mound at the same time or two catchers behind the plate. So there are some obvious duplicate positions with any acquisition. The philosophy at Centennial Bank is to go in day one and start having honest dialogue with the employees about what positions are going to be available. Attrition handles some of the duplication for us. In many cases, a person has transferrable skills and we can find another position for them. We have never had a "layoff"; we've only dealt with duplication.

In the case of a branch closure, we evaluate proximity, the building, foot traffic and make the decision for the bank that will glean the most profitable and convenient location. Closing a branch doesn't necessarily equate to lost revenue. Even if there is a reduction in revenue the evaluation is how much reduction, if any, and how does that number compare to the expense savings of closing the branch.

Paul Vitale

Professional Speaker & Author
Vital Communications, Inc.
Little Rock

Making the call to cease business is one of the most gut-wrenching decisions any high-level leader will ever make.

Over the years of working with industry executives, I have learned that the most common reasons for an entity to halt operations are: financial instability, being outpaced by the competition, not fulfilling its stated mission, or its product or service is no longer relevant.

When the pendulum begins to swing in a negative direction, it is necessary to define the reality of where the organization stands, while recognizing the impact any decision made will have on its loyal employees.

Throughout this process, putting in place the best possible exit strategy for everyone concerned is imperative. Don't get sidetracked by the short-term ramifications; rather, envision the long-term results making a change can produce. Communicate this approach to your team.

Keep in mind, setbacks can be setups for enormous growth. Those who not only survive but thrive throughout the reinvention process are resilient during setbacks, admit mistakes while learning lessons, and act boldly and decisively when making adjustments. Give yourself and your team permission to move ahead, while recognizing that in the long run, new directions create new opportunities.

Dr. Ed Bashaw

Dean, College of Business
Arkansas Tech University
Russellville

As a dean of a state-supported university, I take the stewardship of taxpayer and student resources very seriously. At times a program or unit needs to be shut down. Because these decisions can be very emotional, I find it valuable to have a set of questions ready which help guide the decision. They are:

1) Does the program meet the state minimums for production? If not, there is no need to spend time on this decision because the state mandates the program be closed.
2) Is this program mission-critical or at least mission-supportive? "Legacy programs" may exist from previous regimes that are no longer connected to the mission.
3) Can this program be self-sustaining? In the early stages of a program, unsustainable investments may be made at launch. Deans should determine whether the program will be "profitable" without the investments.
4) Does it serve as a useful "loss-leader"? A good example of a loss leader would be a doctoral program that is unprofitable but that attracts research grants.

Kristi Dannelley

Chief Operating Officer
Magna IV
Little Rock

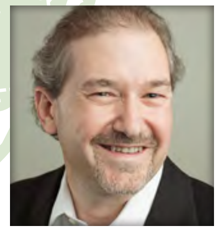
In today's print world, things are always changing. That's just one of the reasons why Magna IV is constantly investing in new technologies – from digital printers to online print automation tools – to best serve our customers' needs.

As we acquire new technologies or businesses, however, we must take a serious look at how it impacts our operations and staffing needs.

At Magna IV, we approach each situation like a puzzle. We calculate the volume we're gaining from the acquisition or efficiencies expected from new equipment against the updated forecast for manpower hours needed.

In the case of new acquisitions, we also take into account a certain percentage of lost sales due to conflicts or existing relationships.

Like any company, we are sometimes forced to make tough decisions like layoffs in order to preserve our return on investment. While challenging, we must do what's best for our clients, employees and company.



Mike Steely

Co-founder
Sparkible
Little Rock

As an entrepreneur, one of the most important things you can do is get your head out of the emotional sand when it comes to the performance of your company.

I've seen many young companies, including one of my own a few years ago, that ignored problems with a lack of viable revenue model and continued down a failed path. This ends up being a very costly mistake financially and in terms of future business relationships. Entrepreneurs by nature have a sense of independence, which can be good, but you're not going to have every answer and you're going to make mistakes. Make sure you pay attention to them, seek a mentor's advice on improvements to make and take corrective actions. Even if that means a complete shut down or total shift in strategy.

Some of the highest growth companies today – Twitter, PayPal, Starbucks, etc. – came from a "pivot" in direction.