



## To “Lay Off” or Not: Alternative Cost-Reduction Strategies

In today’s market, newspapers, business publications and online news sources provide a roll call of layoff numbers – 20,000 here, 1,000 there, 80 there. Too few companies recognize the hidden paradox of layoffs – that they will need to rehire many of those laid-off workers when the economy rebounds. While downsizing has become a standard activity in tough economic times, there are several cost-reduction strategies that might be an effective alternative for your company. Employers who deliberately seek to provide job security for their people obtain cost savings and reputation benefits that ultimately make them more successful in the long run.

The first step in developing a successful workforce management strategy is to understand the cost-reduction stage that characterizes the company’s current business position. A company’s cost-reduction strategy refers to how long the company will need to reduce expenditures, taking into account the perceived duration of the economic, industry or company downturn. The following three stages allow for better classification of appropriate cost reduction practices: (1) short-range adjustments – preliminary cost reduction; (2) mid-range adjustments – secondary cost reduction and (3) long range adjustments – easing layoff agony.

### ***Stage One: Short-range adjustments – preliminary cost reduction***

This stage stems from a temporary slowdown in business activity identified by decreased short-term revenue forecasts and actuals. A company in this stage needs to implement relatively minor cost-reduction measures that match the expected short-term change in business performance. These expenditure adjustments may allow the company to completely avoid layoffs and return to normal business operations within four to six months. Declining sales and / or sales forecasts signal the need to consider short-range expenditure adjustments to prevent a long-term downturn. Immediate recognition of a business lapse and immediate engagement in preliminary cost-reduction methods will focus the company in a cost-sensitive mode for a quicker recovery. A combination of preventive actions might consist of one or more of the following: hiring freeze, mandatory vacation, compressed workweek, salary reductions and temporary facility shutdowns.

### ***Stage Two: Mid-range adjustments – secondary cost reduction***

A need for secondary cost-reduction measures occurs when a company anticipates cost adjustments to be needed for a period of up to a year. If a company properly recognizes a business downturn from its conception in Stage One, business owners and managers can transition to mid-range adjustments after six months and possibly avoid layoffs. An adjustment of this scope originates with extended forecasts of decreased sales and potentially involves an industry-wide slowdown.

Since the practices involved in Stage Two could potentially alter some employees’ work environment, HR will play a critical role in the planning and communication during the transition to these practices and new work arrangements.

Potential practices that are associated with Stage Two include: 1) *Extended salary reduction*. Prolonging a salary reduction into Stage Two is effective for a longer economic downturn. Most employees would rather have a smaller paycheck temporarily than having their jobs eliminated permanently. 2) *Voluntary sabbaticals*. Some organizations are able to allow employees to take voluntary leaves for designated periods of time with reduced pay (20% to 50% of their normal pay) or no pay. The company typically still provides benefits. Some companies allow employees to take other jobs while on leave as long as noncompetition contracts are signed to prevent them from working for competitors.

### ***Stage Three: Long-range adjustments – Easing Layoff Agony***

Long-range adjustments are necessary when a company needs to institute cost reductions for 11 to 24 months. Stage Three can be recognized by a long-term contraction in an industry sector or, as at present, the overall economy. An extended decline in customer demand and unstable economic conditions signal the need to consider long-range cost-reduction measures; layoffs are presumably inevitable. Cost-reduction practices should focus on minimizing the impact on employees and downsizing in a manner that increases employees' desire to return to the company when the economy rebounds.

You can help your employees in the following ways:

***Increase communication with retained staff and maintain communication with laid-off employees.*** Meetings, online bulletin boards, phone calls, e-mails, mailings, teleconferences and other communication methods are simple, yet highly effective, ways to sustain employer-employee relationships. By keeping relations open, ongoing and supportive, the company can help retain remaining staff and reaffirm to laid-off employees that they will be the first people called when positions open in the future.

***Transition intranet site and career service center.*** Creating a transition intranet site for laid-off workers helps ease the pain by providing job leads, counseling services, resume-writing tips, severance documents and other information that is useful for employees in the transition period.

***Be consistent with your culture and organizational values.*** Implementing practices that are aligned with the company culture and the demographics of the employees allow for a more successful restructuring process.

Steering organizations through challenging economic times requires vigilance, resourcefulness and, frequently, tough decisions. Considering alternatives to layoffs, when possible, will help preserve your most valuable assets and position the organization for resumption of "normal operations" when business conditions improve.