

Are layoffs necessary?

Options for cutting human capital expense

During today's economic debacle, companies are facing the possibility of layoffs. Since human capital is usually a business owner's greatest expense, layoffs tend to be the "quick fix" short term solution to cut overhead costs. Though layoffs are necessary at times, companies should be aware of all of their options before resorting to cutting good and experienced employees.

It is important to make sure that other options are considered and the potential damages of layoffs are acknowledged. When business owners lay off an employee, his or her workload often falls on other employees who have neither the time nor the expertise to complete those tasks. This creates a domino effect and ultimately the quality of work and employee satisfaction is weakened.

Another drawback of discharging employees lies in determining which employees are expendable. Frequently departments that do not serve clients directly, such as business development, marketing or human resources are the first to be let go. Business development and marketing efforts are essential to keep up with your competitors and bring on new business, making this an inconvenient time to go without. HR seems just as necessary as their responsibilities in hiring top talent, remaining compliant with the excess of frequently changing laws, and effectively communicating current issues such as job security and working conditions to employees.

Alternatively, those employees that service your clients directly are important as well. You still need to produce a quality product or provide excellent customer service or you will lose business to your competitors. Keeping long term goals in mind, you realize human capital (although your greatest expense) is your company's most important asset.

So how does a business owner retain talent, yet still cut overhead costs?

Consider these options first!

Raise Freeze	Explain that the freeze is in lieu of job cuts and the decision will be revisited periodically as the economy improves.
Hiring Freeze	Many companies are already instituting this one. Optimize your current resources.
Reduction in hours	Be wary of FLSA status.
Pay Cuts	Explain the cuts are temporary and in lieu of job cuts.
Travel Restrictions	Increase internet use and teleconferencing.
Trim the fat	Are there areas where you can cut back? Consider changing or renegotiating vendor relationship and contracts such as office supplies. Do an inventory of your current supplies and set a strict budget for the year.
Social functions	Reduce retreats, conferences, meetings and client events.
Benefit restructure	Shift the cost of benefits (employer/employee contribution) and consider voluntary benefits.

When layoffs are inevitable...

- Worker Adjustment and Retraining Notification Act (WARN) offers protection to workers, their families and communities by requiring employers to provide notice 60 days in advance of covered plant closings and covered mass layoffs. This notice must be provided to either affected workers or their representatives (e.g., a labor union); to the State dislocated worker unit; and to the appropriate unit of local government (Source: <http://www.doleta.gov>).
- Consider a “ last in first out” or performance based approach (if so, proper documentation is necessary for performance issues)
- Explain the rationale and prepare all severance information in writing (notification letter, salary continuation/severance period, benefits, outplacement, etc.)
- Write the script to best convey your message
- Arrange with human resources and outplacement professionals
- Prepare yourself emotionally and don't assume personal responsibility for the termination
- Anticipate employee reactions. Typically they are one of the following: anticipation, disbelief, escape or violence. Therefore you will be prepared to handle it in the best way

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