# Viable Alternatives to Layoffs

Many successful companies believe that employees are their greatest asset. In a challenging economy, employers need to look at creative ways to reduce costs, retain a productive workforce, and keep the company running.

By Bill Brennan

The economy is a dynamic interplay of how scarce resources are used to create wealth and how that wealth is distributed. Due to the instability in our economy in 2009, employers are often faced with very difficult decisions on how to remain competitive or to simply stay in business long enough to ride out the storm.

In a severe down-economy such as the one we face today, organizations often look to increase efficiency and cut costs. Unfortunately this often leads to employee lay-offs. In most organizations payroll is the largest single expense and laying-off employees might appear to be the quickest way to reduce expenses. But, before making the decision to reduce the workforce, employers should consider (1) all viable alternatives to employee reductions, and (2) the impact that layoffs will have on the remaining employees.

These alternatives include: furloughs, sabbaticals, reduced work schedules, shutdowns, flex schedules, job sharing, virtual work arrangements, cross-training, transfers, salary reduction/freeze, and voluntary severance packages. When properly implemented, some of these options can immediately cut costs while maintaining the workforce, whereas other measures can improve employee morale and performance.

## ALTERNATIVES TO LAYOFFS

**Furloughs** are company initiated leaves of absence where employees may be paid (using unused vacation time for example), or the leave may be unpaid with the understanding that the employee may return to work when business improves.

**Sabbaticals** are company authorized/scheduled leaves allowing employees to pursue other interests while keeping their career in tact. Examples include returning to school or volunteering for a non profit organization.

A **reduced work schedule** is an employer initiated option that decreases the amount of hours worked by employees on a weekly basis. It immediately reduces costs while maintaining employment for the employee.

Mike Quirk, human resources manager for FOSTA-TEK OPTICS in Leominster, Mass., partnered with the Massachusetts Department of Workforce Development, Division of Unemployment Assistance by taking advantage of the "WorkSharing Plan" to avoid layoffs.

"About four or five years ago we were able to avoid layoffs of between 30 and 40 employees by reducing their work weeks to 24 hours and utilizing the Work Share Program to supplement the remaining 16 hours per week for the employees," Quirk said.

"It worked well. The employees are unionized and we received support from the union. FOSTA-TEK paid 100% of the medical and dental insurance premiums for our employees during the three month period," Quirk noted.

"This was a win/win situation. We were able to retain all of the affected employees and we gradually increased their work schedule back to 40 hours," Quirk added.

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**Shut Downs** are another cost saving alternative to layoffs—a measure being widely used by pulp and paper mills today. Organizations select a period of time (usually in weeks) to close the operation. Employees usually receive vacation pay during the shut down period. These are typically planned events that allow for notification to customers and vendors.

**Flex schedules** allow employees to choose their starting and quitting times as long as they work the required number of hours in a week. Examples include: four 10-hour days, three 12-hour days, and rotating schedules (fire fighters, policemen) whereby employees rotate between three shifts.

**Job Sharing** is an arrangement when two employees split the hours of a full time position. Some job sharing may allow employees to receive medical and dental benefits at an increased cost.

The **virtual work** arrangement is a creative way for an employee to do work from home on a part or full time schedule. Obviously, this depends heavily on the type of job involved and there must be ways to measure workload and performance. Virtual work schedules do not apply when the work must be done at the organization location, i.e. manufacturing line worker.

**Cross-training** of employees allows for easy transitioning between jobs to make employees more versatile to employers and may provide employees with alternatives to being laid off.

A **transfer** is a company initiated option to potentially maintain the career of a qualified employee who would otherwise have been laid off. The best example of this is when a plant or office is closed down in one location and qualified employees are given the opportunity to take open positions at other company locations.

**Salary reduction/freeze** is a company initiated cost cutting measure that can reduce current wages or eliminate annual wage increases due to poor organizational performance. This is a very difficult decision for any organization to make. Although overall organization performance may be off, it can impact many employees who are performing well, and under this option an organization risks losing its better performers.

Recent examples of salary reduction involved senior executives volunteering to forego bonus money and/or reducing their own salaries to decrease or eliminate layoffs, i.e. FedEx's chief executive, Frederick Smith, took a 20% pay reduction; and AK Steel implemented a 5% pay reduction to all employees including the company's CEO and all executive officers.

**Voluntary severance packages** are a viable alternative for organizations to cut costs by enticing employees to leave the company. This common practice allows the company to substantially reduce costs over the long term (short term costs may be high) and gives an employee a "parachute" of money/benefits to allow them to look for employment or retire.

## COMMUNICATE, COMMUNICATE, COMMUNICATE

When layoffs occur, remaining employees typically must "do more with less" or pick-up the workload formerly handled by those who were cut. In addition, the remaining workers wonder whether or not their job is next on the chopping block and begin exploring job opportunities elsewhere, leaving employers vulnerable to losing key employees to the competition or other employers. And employers must keep in mind that these key employees—the core group that is essential to the success of an organization—are usually the most employable outside of the organization.

Nadine Pfautz, human resources consultant at C.H.A.R.T Consulting, emphasizes the need for organizations to be honest and up-front with employees about any problems within the organization. She encourages input from employees and says that they need to be part of the solution.

"Employees know their jobs best and can offer cost cutting ideas," Pfautz said. "Retraining and cross training are great ways to prepare the employees and make them more valuable to the organization."

Joe Cabral, human resources manager for Interstate Brands Corporation (IBC) in Biddeford, Maine helped guide and retain employees through his company's recent emergence from bankruptcy. He concurs with Pfautz. "One of the most important things we did right during our entire bankruptcy was to communicate, communicate, communicate—both the progress and the roadblocks involved in the process to our people as it occurred. Timing (of the communication) was critical. No one had to go home and hear about IBC from their neighbor or the news," Cabral said.

"IBC did an excellent job, this along with the sagging economy contributed greatly to our overall employee retention …only 1% turnover during the bankruptcy period," he added.

Cabral notes that the current economy will present a new set of challenges for HR personnel. "They will have to understand the labor market, retention skills, and talent assessment." Cabral uses the "5S's" training concept—Sort, Set In, Shine, Standardize, and Sustain—to "develop a core understanding and the accompanying successful behaviors that are in sync for employer and employees."

## THE MOTIVATION FACTOR

Motivation can also be a powerful tool when it comes to retaining key employees. Some of the factors at play here include: communication, financial rewards (retention bonuses, incentives, perks), providing career/promotional opportunities, cross training opportunities, training and developmental opportunities, and sincere praise.

Pfautz reiterates that open communication is the most important step. "Celebrate successes, have regular state-of-the-state meetings with employees and recognize their performance with sincere appreciation," Pfautz said. "You do not have to spend lots of money."

Pfautz says that employers should focus on retaining employees who are committed to the organization. "Employees will stay, but if they do not want to be part of the solution, then let them go."

Financial rewards, while being strong stimulus, can also create some animosity among workers and should be examined carefully. However, a properly developed Succession Plan will identify key employees who are truly "impact players" who should be treated accordingly with reasonable offers of retention bonuses, incentives, or pay increases.

Another way to acknowledge key performers is through the implementation of a personal career development plan that outlines promotional opportunities and the requisite steps involved. Continental Baking Company, prior to being purchased by Interstate Bakeries, used a "Candidate, Placement and Development Program" to identify high performers and their subsequent career paths.

The employee retention tools of cross training, and training and development opportunities are other methods that can be used effectively to encourage learning and keep key employees motivated.

Finally, one of most effective (and sometimes the most overlooked) ways to retain any employee is through sincere praise or recognition. Timely and sincere acknowledgement of a job well done may be the best and most cost effective retention tool. Forms of recognition include; company newsletter, certificate of appreciation, mention at an employee meeting, or a simple "thank you" by a supervisor or manager.

## CONCLUSION

The 2009 economic challenges must be addressed by all organizations through (1) the application of sound business principles, (2) implementation of ethical practices, and (3) the development, appreciation, recognition, and rewarding of employees.

In a down economy, employers must be cautious not to overdo workforce reductions and carefully examine all options to layoffs, even when layoffs seem unavoidable. In the long term, jobs saved now will help a company endure the tough times and better position it for success when the economy turns the corner. ■

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