



Things to Consider Before Reducing Your Workforce

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Anyone who has read the news lately knows all about the ongoing series of downsizings and cutbacks in our workforce. Each day there are new predictions that have many employers on edge trying to decide whether to lay off employees. These same employers need to consider the alternatives.

Statistics Canada reported that employment fell by 129,000 in January (-0.8%), almost all in full time, pushing the unemployment rate up 0.6 percentage points to 7.2%. This drop in employment exceeds any monthly decline during the previous economic downturns of the 1980s and 1990s. In December 2008, Canada lost 34,400 jobs. In November the job loss was 71,000. Consensus seems to indicate that the economic slide may not halt quickly. It could take a year, possibly longer.

January rates for all the provinces were (previous month in brackets):

- Newfoundland and Labrador 14.3% (13.7%)
- Prince Edward Island 11.9% (11.8%)
- Nova Scotia 8.8% (8.2%)
- New Brunswick 8.7% (8.6%)
- Quebec 7.7% (7.3%)
- Ontario 8.0% (7.2%)
- Manitoba 4.6% (4.3%)
- Saskatchewan 4.1% (4.2%)
- Alberta 4.4% (4.2%)
- British Columbia 6.1% (5.3%)

Deciding what to do – staff layoff or something else...

Many business owners and managers who are watching revenues fall and business decline face the urgent need to cut costs. The largest business expense is usually salary and associated human capital costs. Cutting in this area of often seems to be the only alternative. But is it? Generally speaking, a layoff is only one option. There are other alternatives and possibly more effective ways to cut costs.

Before taking any action at all, employers must first consider the costs and potential savings of a layoff versus other actions.

Costs...

There are a variety of costs associates with layoffs and rounds of terminations. These include the cost of severance packages, which vary from province to



province and by industry; benefit, pension and the cost of 'perks' since they frequently form part of the severance package. Another expense is assistance to released employees such as outplacement, legal fees for review of layoff packages and occasionally litigation following layoffs, payroll expenses related to the terminations and, finally, the cost of the time it takes for all those involved in preparing for and communicating the layoffs.

There are other costs to consider as well. These are the 'hidden costs' that inevitably follow a round of terminations or layoffs. These costs stem from a phenomenon called "survivor syndrome".

Symptoms include:

- Reduced loyalty and trust in the employer by the 'survivors',
- Lower morale and motivation
- Increased skepticism among the 'survivors'
- Feelings of guilt

After-effects include:

- lower productivity levels by the "survivors" of the layoff,
- increased absences
- higher labor turnover
- Management time needed to counteract 'survivor syndrome

The term "Survivor syndrome", was coined by organizational psychologists. describes the psychological, emotional, and physical reactions of employees who survive a layoff situation.

The survivors of a layoff, who should be delighted to still have a job, end up losing their loyalty towards, and even resenting, their bosses. This is the result of fewer employees to do the work and a seeming inability by the company to focus on ways to reduce the workload. This often leads to stress, anger and betrayal feelings especially if the surviving employees do not believe that the company is committed to their future. Survivors wonder why they are feeling that they should be grateful for the extra work, overtime and anxiety that comes with a downsized workforce.

The extra workload, reduced morale and lack of trust in the organization frequently drives survivors to look elsewhere for a job. Survivors want to leave the company that has caused these strong feelings of guilt and abandonment. Replacing these employees result in a further increase in workload for others, increased recruiting costs and further lost productivity.

Spending time to counteract survivor syndrome and re-motivate employees takes time and effort. Employers need to consider whether that effort outweighs the



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alternatives to laying off employees. There is a strong argument to be made that management time is much better spent focusing on improving business and increasing revenues.

Layoff Savings...

As noted, the savings that can be generated by cutting staff are significant and show up immediately. Some of the direct savings include salaries, benefits, payroll costs, overtime. This is the reason why so many businesses opt for this tempting and seemingly simple option. It is quick and appears to meet the organization's objective of saving money – fast. Nevertheless, it is the hidden costs of layoffs that sometimes employers forget to factor into cutting staff and these may far outweigh the savings.

Finding another way...

Looking for other options to layoffs is a challenge. However, it is a productive and positive approach that often yields unexpectedly effective results. Consider the following:

- Be honest with employees. Tell them the real situation. Get the employees directly involved in the business issues. Open and honest communication has positive impact.
- Ask employees for their help and ideas. Managers frequently underestimate and are surprised to learn just how perceptive and creative employees can be in these circumstances.

Employees are more motivated to offer innovative ideas, especially when their jobs are directly implicated. If the employer announces that maximum job preservation is one of the top priorities alongside cost cutting and productivity improvement, it is much easier to maintain employee morale and buy-in when changes are made.

Some alternatives to consider are:

- Reduced workweek,
- Reduced workday,
- Shortened hours,
- Salary or bonus freezes,
- Hiring freezes,
- Departmental/divisional restructuring
- Restricted overtime,
- Voluntary pay cuts,
- Travel restrictions,
- Suspension of perks,
- Ask for volunteers who wish to leave,
- Take a hard look at poor performers,



The best and most creative ideas for restructuring and increased efficiency often come from the employees.

It is important to make sure employee know that these actions are designed to keep as many on the payroll as possible. Even if a layoff does occur, employees will know they had a say in trying to avoid it and that the company did all that it could to avoid the action.

The Decision to Terminate Employees

There are five things to remember when staff cuts are needed:

- Organize the layoffs carefully to ensure that everyone is notified only when all the preparation and paperwork is properly done.
- Obtain advice from a qualified advisor such as a consultant or lawyer to ensure that appropriate notice periods, benefits arrangements, outplacement (if applicable) have been given or arranged, and that the correct severance pay has been calculated
- Observe local laws regarding notification of government authorities and the related timing of the notifications
- Make sure that there is communication plan prepared in advance for the “survivors” to let them know what has taken place and how that will affect them in the short and medium term.

Honest and sincere communication can minimize many of the issues that arise following layoffs. Managers need to be doubly vigilant to ensure that those who are having a hard time adjusting to the changes are assisted through e difficult days following the terminations.

Adequate planning will make even the most difficult layoffs easier to bear for all concerned. It is important to ensure that when layoff is the last resort, it is handled in a fair, respectful and legal manner.