Avoiding Layoffs: Alternatives to Workplace Reductions

11 min read

In September 2022, the U.S. economy added 263,000 jobs, and the unemployment rate shrank to 3.5% [1]. These optimistic numbers have made some economists hesitate to call the country's economic situation a recession.

Key Takeaways

- **Why Layoffs Are a Savvy Business Leader's Last Resort:** Although letting go of employees is a simple way to save money, this strategy also comes with hidden costs…

- **How to Avoid Layoffs During a Recession:** When weighing layoffs against compromises under economic pressures, compromises are usually considered to be the lesser of two evils…

- **How to Navigate Workforce Reduction Challenges:** Having to let employees go – especially good employees – as a result of a recession is one of the most difficult decisions to make and…

Despite the positive jobs report, it's impossible to ignore the fact that businesses are facing major economic challenges. Some of these include continued supply chain problems, an economy that has shrunk two quarters in a row [2], inflation rates remaining at elevated 40-year highs [3], an inverted yield curve [4], and the expectation that the Federal Reserve Bank will soon raise interest rates for the third quarter in a row [5].

With what seems like much of the economy stacked in favor of an impending recession, it might be only a matter of time before the Department of Labor's jobs reports turn negative too. When a recession hits, demand dies down in addition to the need for production. As a result, businesses are left with more workers than they need and not enough revenue to afford them. As a result, massive layoffs are one of the main symptoms of economic recessions.

Why Layoffs Are a Savvy Business Leader's Last Resort

When labor is one of your biggest expenses and you're burdened with an excessive number of employees during a period of slowed demand, layoffs seem like the obvious right way to cut costs and weather the economic storm.

Although letting go of employees is a simple way to save money, this strategy also comes with hidden costs.

Your Employees Are Investments

Each of your employees represents an investment. You've spent time, money, and resources recruiting, hiring, and training them, educating them, and maybe even providing them with opportunities to develop their careers in your company. When you lay off an employee, you're throwing away all of that investment's potential. Of course, these costs increase with the amount of time an employee has worked for your company and with their level in your company.

Employees Have Intrinsic Value

Additionally, each employee in your business has their own intrinsic value that they can offer to the company. They have personal and unique knowledge that they have acquired during the time they've been on the job. They also have personal relationships with clients, and your clients will surely miss them if they are let go.

Workplace Morale and Culture

Letting employees go as a result of needing to downsize a company takes an enormous toll on employee morale and workplace culture. It eliminates any semblance of job security that your employees once relaxed in. It also shakes up your team, breaks up workplace friendships, and results in employees simply feeling sad because they have to say goodbye to their coworkers. Layoffs can also impact workplace morale and culture by resulting in remaining employees having to take on additional responsibilities to ensure operational continuity.

Business Reputation

While it is sometimes unavoidable, businesses that turn to layoffs, instead of other alternatives, during economic recessions suffer reputational damage as a result. The perception is that a business that executes massive layoffs cares more about its products, services, and bottom line than its people.

Yes, sometimes layoffs are a necessary evil that allows a business to avoid closing and everyone losing their job. Sometimes, layoffs allow a business to at least remain viable and keep some of its employees employed. Despite these truths, business leaders that choose to downsize will be viewed differently by clients, employees, and by the public going forward.

Your Leadership Abilities Could Be Questioned

In addition to a business suffering reputational damage, its leaders might also suffer in the same way. If it is not apparent that you've done everything you possibly could to avoid employee downsizing, then your leadership and integrity could also come into question. As a result, your employees, clients, and other business constituents could lose trust in you.

How to Avoid Layoffs During a Recession

Business owners can start thinking now about the alternative strategies they can use to avoid the need for layoffs during an economic downturn. The following strategies can help you avoid the need to lay off employees during a recession.

Although these strategies are not all highly desirable options, they do often represent the better alternative for businesses and employees that are facing the difficult realities of economic recession. When weighing layoffs against compromises under economic pressures, compromises are usually considered to be the lesser of two evils.

14 Alternatives to Employee Downsizing During a Recession

1. Wage Freezes

If you're struggling to afford all the employees you currently have, then you can't afford to pay them more now either. Consider freezing wages and delaying pay increases if contractually possible.

2. Attrition Paired With Hiring Freezes

If you're facing the need to lay off employees, then now is also the time to stop replacing employees who have quit. Instead of filling these positions, divide and redistribute the employee's former responsibilities.

During a recession, demand is usually decreased, so at least some of your existing employees are likely experiencing a decreased workload and will be able to take on additional responsibilities without the risk of burning out.

3. Cutting Perks and Fringe Benefits

If labor costs are too high and you don't want to let go of your employees, then you need to find ways to reduce the cost of labor. The best place to start is by assessing the perks and fringe benefits you offer your employees and determining whether or not cutting any of these could stand to save you significantly.

When making decisions around cutting fringe benefits and perks, however, tread carefully. You do not want to make a misstep in cutting relatively inexpensive benefits that your employees really love. This could result in an inadvertent and disproportionate loss with respect to workplace culture and employee morale.

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4. Reducing the Cost of Benefits

If you can, find ways to cut the amount you're spending on employee benefits. Contact your insurance broker to determine whether there are any alternative plans you can offer your employees to cut costs while maintaining your benefits.

This strategy can seriously damage employee satisfaction, so it's important to carefully consider it before cutting any benefits. Take a look at the benefits you offer and determine whether any are being underutilized by employees. These are the benefits that your employees will likely miss the least. Start here.

5. Proportionately Reducing Work Hours and Pay

Whether you have hourly or salary employees, you can consider reducing their work hours and proportionately reducing their pay. This keeps them employed but saves you money that you might be paying them just to hang around at the office with nothing to do.

Be sure your employees can accomplish all of their necessary work during the reduced workday before switching to this model, overwhelming them, and leading them to burnout.

6. Implement Job Sharing

Job sharing is a strategy that can keep two employees on the books, sharing the job and salary of one employee. The built-in perk of this strategy is that you'll have two employees ready and trained for full-time employment just as soon as the economy picks up and your business is in need of them again.

7. Reducing Only Part-Time Employees

Instead of creating more part-time employees through job sharing, you can consider eliminating your part-time workers and redistributing their work to full-time employees. Although this doesn't entirely avoid layoffs, it does represent slightly less overall damage than letting full-time employees go.

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8. Redeploying Workers in Your Company

This strategy involves a simple reorganization or redistribution of your employees. Perhaps production is slow because sales are slow. This means you need more people on your salesforce and fewer people carrying out jobs. Take a look at the workers you currently have, their skills, and their potential to determine whether or not they might generate a better ROI in a different position.

9. Offer and Incentivize Early Retirement

Individuals in your company who are eligible to collect retirement or dip into their pensions are also most likely top earners in your business. This means that convincing them to retire now could save you a big chunk of change.

10. Offer Employee Furloughs

Maybe you don't have a need for an employee now but you don't want to let them go permanently. These scenarios are a good opportunity to offer an employee a leave of absence or temporary furlough.

11. Consider Shared Ownership and Reduced Pay

Reducing pay without offering anything as a replacement is pretty demoralizing for your workers. Some companies opt to offer employees ownership or shares and a reduced salary in exchange for labor.

12. Maintain a Healthy Mix of Employees and Contract Labor

While operating your business during good and bad economic times, maintain a healthy balance of full-time employees and contract labor. This will make you more flexible in terms of sheltering employees by dropping independently contracted work when times get tough.

13. Cut Costs Everywhere Else Possible

Take a very fine-toothed comb to your list of expenses. First, cut everything you can. Then, reduce as many costs as possible by negotiating with vendors or shopping around for less expensive services, supplies, and materials.

How to Navigate Workforce Reduction Challenges

For most business leaders, having to let employees go – especially good employees – as a result of a recession is one of the most difficult decisions to make and even more difficult to carry out. To make the process easier on everyone and ensure your business and leadership skills take the least amount of damage possible, be sure to thoroughly consider all of your options and ensure you have exhausted the alternatives.

Clear communication with sensitivity

Throughout the process, it's essential that you communicate clearly, openly, and honestly with your employees about the financial state of the company, the challenges it's facing, and what you've been doing to try to avoid the need for workforce reductions. It's also important to be sensitive about these topics while you're discussing them.

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Understand that instability and financial uncertainty in the business creates instability and uncertainty in your employees' lives. Despite this, sheltering them from the truth won't help their situation in the long run. It is much better to be honest and open about the situation from the beginning so that your employees have all of the information they need to put themselves in the best place they can in terms of productivity in your company and financially in their personal lives.

Additionally, leading without transparency and honesty will reduce the amount of trust your employees have in you. As a result, your workplace culture will suffer, employee morale will decrease, and engagement and productivity will take a hit too.

Base Cuts on Performance and Productivity

Despite your best efforts, you might still need to reduce your workforce. If this happens, the way you make these difficult decisions will largely be based on your business's core values. For example, do you value loyalty and time on the job or past experience and education more? In terms of your bottom line, the best metric on which to base decisions around layoffs is productivity or performance. While business values are important, they are only important as long as your business survives.

During a recession, it might be necessary to make hiring and firing decisions most strongly around productivity and profit margins. Take a look at profit and loss reports by class for each of your employees under consideration. Letting go of your least productive employees will result in the biggest cost savings with the least damage to your company's productivity.

How to Prepare Your Business For Economic Uncertainty

Whether the next economic recession officially begins next quarter, next year, or a decade from now, difficult economic times are always just around the corner. It's best to shore up your business when times are good so that you can be well-protected from financial struggles.

However, you can also use your back office and the wealth of historical financial data it houses to learn a great deal about your business to understand where you can cut the most costs, where you stand to make the most money, where you are actually the most profitable, and which of your employees are the most productive. Having valuable insights such as these can help you make data-driven decisions to strengthen your business and help it not only survive but thrive during challenging economic times.

[1] https://blog.dol.gov/2022/10/07/september-2022-jobs-report-strong-and-steady

[2] https://www.forbes.com/sites/jonathanponciano/2022/09/29/technical-recession-confirmed-economy-shrank-06-last-quarter-final-gdp-shows/?sh=86fa84444da9

[3] https://www.bls.gov/news.release/cpi.nr0.htm

[4] https://www.currentmarketvaluation.com/models/yield-curve.php

[5] https://www.reuters.com/markets/us/fed-seen-driving-interest-rates-higher-inflation-sears-2022-10-13/