

“QUESTION TO CONSIDER BEFORE LAYING OFF”



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Companies are challenged today to evaluate their current business situations and make the best of a flat economy and political uncertainty. When sales are down and contracts on hold, it is difficult not to react by cutting expenses right away.

The cost of employees, of course, with salaries and benefits, is the biggest single expenditure that companies have. Therefore, payroll is the first place that businesses will look to cut to make a quick short-term impact. It is prudent, however, for each business to carefully evaluate the larger business picture and consider the strategic impact and longer-term cost of each option under consideration.

When headcount must be eliminated, it is difficult for management to determine how and where the cuts will be made. Oftentimes, these decisions are made by management in a vacuum - without a clear understanding of the cost and longer term impact on the organization and its employees, and without valuable input from within the organization.

To replace a person costs one to two times their annual salary (or more) depending on the position. We also know from demographic studies and Department of Labor statistics that in the not too distant future, a talent shortage will emerge. It might feel today like we can easily replace people if we need them down the road, but that may not be as easy as we think. And it will be costly as well.

Before letting employees with valuable skills and knowledge out the door, a company should consider the following:

- Is our current situation one that will not change (i.e.: obsolete product line) or are we experiencing a temporary economic situation that is likely to turn around?
- How much of our situation is the result of internal (i.e.: lack of focus and direction; effective operations, etc.) Vs. external (economic and geo-political) factors? If the former, how can we address the primary issues first before letting people go?
- Do we have a clear business vision, strategy and performance goal in place? Have our employees contributed to this process and do we have "buy-in" from them?
- What knowledge and skill sets are we going to need for our long term viability and success? How can we evaluate our current talent pool against those future needs?
- Have we adequately addressed performance issues within our organization? Or have we tolerated mediocrity and swept accountability under the rug? What is this costing the company in lost productivity depleted morale and turnover?
- Can persons in no-longer-needed positions have value elsewhere in the organization?
- If positions must be cut, who should be let go: an under-performing person in a needed role, or a valuable contributor in an obsolete role?
- What is the cost to let an employee go, (including severance, extended benefits, career transition services, etc) versus the cost if we need to re-hire this knowledge/skill set in less than a year?

These are questions that must be considered, even when "the wolf is knocking at our door." For those organizations who want to find creative solutions to avoid lay-offs during temporary downturns, next week's column will offer some ideas and best practices. Your willingness to share what has been successful in your company is most welcomed at LeslieRose@PathfindersCTS.com.