

The Economy's Impact on Human Resources

by Arlene Vernon, PHR

As a human resource consultant, I never know what unique questions or needs clients will have when I pick up the telephone.

I've received calls from clients whose businesses have not been affected by the economy. I've received calls from companies that need my assistance in reducing, realigning and restructuring their organizations. There have been calls from clients who aren't sure whether they will have to make staffing changes in the future but want to strategize their options prior to taking any drastic steps. And I've received calls from companies wondering how to reinspire their employees during these challenging times.

Where does your organization sit on the spectrum of weathering this economy?

From the outside looking in, it seems employers are having a knee-jerk reaction, jumping from facing their financial struggles to immediately eliminating employees. If employers are not communicating their business and financial concerns openly with their employees, how do employees know that all the alternatives to termination have been considered?

Smaller organizations may be able to involve employees in brainstorming and selecting strategies that allow them to retain talent – the high-performing employees they can't afford to lose. This may be more difficult in larger organizations, but not impossible. You may be surprised by the changes employees are willing to accept (1) when they're involved in the process, and (2) as an alternative to unemployment.

The way each company elects to address the financial side of employment in these times directly correlates with the impact the company's actions have on the morale of those employees who remain. Unfortunately, the aftermath of the layoff or reorganization is frequently ignored, yet the financial impact of a fearful and low-morale workforce can exceed the savings the organization had intended with its reduction in force.

What are some alternatives to terminating employees?

I am deliberately not using the term "layoff." Laying off employees implies that you're planning to rehire them in the future. If you have no intention of reemploying these workers, then be straightforward and call your actions what they are, such as a reduction in force (RIF), a termination or a position elimination.

You may want to consider some cost-cutting options before terminating talent:

- Ask employees to identify every place in the organization where money can be saved, such as by changing methods, practices or expenditures.
 - Consider making this financially rewarding. Perhaps when plans are implemented, employees could get a small percentage of the cost savings.
- Eliminate overtime.
- Reduce or eliminate wage increases, bonuses, stock options and salary structure increases.
 - Have a plan for what to do when the economy rebounds. Will these pay reductions be retroactive?
- Rather than increase pay, give employees additional paid time off.
- Shorten work weeks, with correlating reductions in pay.
 - Some employees may actually welcome the additional time off.
 - Research unemployment law to find out the breaking point where reductions in hours result in increased unemployment costs.
- Shift everyone to a four-day work week to decrease overhead costs.
- Ask employees to volunteer to take unpaid time off – either one-time periods (weeks), ongoing reduced hours (Fridays off) or randomly planned unpaid absences.
- Require all employees to take unpaid time off during the year.
- Reduce overall pay by a certain percentage, retaining full hours.
- Change/decrease your vacation policy – accrual, carryover, payout at termination.
 - Minnesota allows employers to determine in their written policies whether and/or how much vacation/paid time off to pay out at termination. This is an expensive benefit to accrue and pay out – especially if carryover from year to year is high.
- Decrease benefit plans and/or cost sharing.
 - Small businesses in Minnesota must pay a minimum of 50 percent of employees' medical premiums.
- Freeze/close all open positions.
- Use attrition to your benefit: As people leave, determine how to reorganize to fill the gaps.

Be creative. I'm sure you'll think of additional actions you can take before you'll have to implement a RIF.



If the RIF is inevitable, what do you do?

I've had many clients ask whether they are required to terminate their newest employees – the last-in, first-out method. If you're in a union environment, you have to follow the union agreement for terminating employees. Otherwise, as long as you're not discriminating against a protected class, you can terminate whomever you want.

You have to plan for all contingencies when implementing a RIF

There are many questions to ask and many decisions to make.

- When, where and by whom are employees terminated?
- How does the timing impact your workflow, production, client needs?
- Do/can you offer separation/termination pay or pay in lieu of notice?
 - Note: Severance plans are ERISA plans just like health benefits. While some companies have the plan documents and legalities tied to severance, most don't. So only use this term if you have a formal written plan in place that has been reviewed by your legal experts.
 - If you can't afford to pay your employees when they're working, can you afford to pay them when they're not working? If you don't offer termination pay, what are you communicating to your retained employees? What will it do for their morale and for your reputation in the community?

- How are you handling benefits continuation? Are you ending at the end of the month in which the terminated employees worked, the minimum required by Minnesota statutes, or are you extending benefits as part of the separation agreement?
- Are you offering outplacement services? If so, to whom and to what extent?
- How and when do you notify the remaining employees of these changes?

This leads us to the most important question of all.

How do you keep the remaining employees focused, motivated, productive and engaged?

Now is the time to be the best manager and motivator you can be. Now is the time for you to connect with your employees, be honest with them about your expectations and their performance objectives, and create a positive, team-focused work environment where their contributions and results are celebrated.

Even if you are just as worried as your employees about what the future holds.

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A leaner organization cannot afford to lose its top talent, nor can it afford lower productivity with a demoralized and fearful staff. So:

- What are you personally going to do about it?
- How are you going to ensure that your top performers don’t leave?
- How are you going to motivate the other managers so that the leadership team is clearly and consistently communicating a positive and excited message about the organization and its future?
- What kind of an employee culture do you really aspire to have and how committed are you to getting there?

Now is the time to step up all the employee-centered communication and activities to keep your employees at their highest level of engagement with your organization. With all the above changes, your team needs to feel important, trusted and inspired to do whatever it takes to grow that organization.

If you can’t afford rewards, then give recognition. If you’ve overlooked timely performance reviews, don’t miss another one. If employees haven’t felt valued in the past, create programs that honor their contributions. If you’ve ignored employee opinions, involve them in large and small decisions so that they feel as though they’re truly part of the team. If you see company-wide programs, methods and processes that are cracked or broken, take the initiative to fix them and communicate the results to your employees.

“If you can’t afford rewards, then give recognition.”



The economy may impact certain aspects of your business. But you can have a greater impact when you focus not only on how changes affect your human resources, but on how your human resources – your talent – affect and implement changes.

The result will be a stronger, more focused company with loyal, dedicated employees who drive your business toward a solid future.



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