

## Choosing alternatives to layoffs

By Cyndia Zwahlen  
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The women and men, gently prodded by a facilitator, opened up about their daily inspirational practices:

"Every morning and every night I create a feeling of gratitude for everything in my life," one woman said.

Said another: "Remembering that there are so many people with so much less."

Group therapy? No. It's a workforce training session held last month for the employees of Primary Freight Services Inc. of Rancho Dominguez.

The 66 workers in the small logistics company's local, Chicago and New Jersey offices had their pay and hours cut 20% to a four-day workweek in mid-February. Owner John Brown wanted to help employees deal with the emotional fallout.

The two-hour videoconferences, held each week for six weeks, covered how to beat job burnout and deal with stress and anger. The training was part of Brown's plan to cut costs while preserving employee morale and productivity.

He also shared sales numbers in companywide meetings, created lists of questions and answers that addressed benefits (they are untouched) and other topics. And he sent personal letters to each employee's home to acknowledge that the change would affect their families as well.

"It's hard, but you have a culture that we've created for 12 years, and you've got to stay true to that," Brown said.

He believes that sales, which fell 21% in the first quarter compared with the same period in 2008, will turn around. In the meantime, he and President Kathy Hogan, his sister, have stopped taking paychecks and are trying to avoid layoffs by cutting their biggest expense -- labor costs.

They aren't alone. About 1 in 4 companies have cut workers' hours by some degree, 7% have gone to a four-day workweek, and 6.7% have furloughed employees to cut costs without permanent layoffs, according to a January survey of 100 businesses by outplacement firm Challenger, Gray & Christmas.

"It might be the best of a bad set of options," said John Challenger, chief executive of the Chicago company.

Studies show that companies that choose alternatives outperform their competitors that resort to layoffs, said Amy Robinson, principal at workforce consulting firm Interchange Group in Los Angeles.

Small-business owners are looking to cut costs without inflicting mortal wounds on their companies. Some are cutting hours and pay to forestall layoffs. Others have already had layoffs and believe that they can't lose more workers without cutting into muscle. So they trim paid work time for some or all of their employees.

Businesses are trying to keep their companies alive, and their workforces intact, so they are ready to grow when the economy recovers.

That's a different strategy from the permanent layoffs used in past recessions, Challenger said. Although there have been 5 million layoffs announced by U.S. companies since the recession began in 2007, it's not the most common cost-cutting tool, according to the Challenger Gray survey. Cutting travel expenses and freezing or reducing hiring were the most frequently reported measures taken.

For small businesses that want to avoid layoffs, it's important to understand that cutting employee hours or pay carries risks. Resentment, anger, damaged morale and lost productivity are real concerns. Some employees probably will leave.

And tinkering with hours and pay can be especially tricky in California. The state has rules with very little flexibility for certain classes of employees, such as those who get a salary and are exempt from overtime pay, said employment law attorney Frank E. Melton, a partner at Rutter, Hobbs & Davidoff in Century City.

"A savvy way to do it, given the California issue, without destroying exempt status, is to not have a set schedule of time off for exempt employees," said Melton, who represents employers in workplace disputes.

An employer could remind exempt employees that they can have a flexible schedule on the days when they don't need to be at the office, Melton said. He especially cautioned companies about trying to cut a couple of hours from a salaried worker's week, say on a Friday afternoon, while cutting his or her pay.

Although some small-business owners may not mind if their salaried workers lose their

exempt status and become eligible for overtime, it's a decision that should be made carefully, Melton said.

Employers should instruct their hourly employees not to work during their time off or they could be eligible to be paid. Salaried workers on unpaid leave shouldn't check voice mail or e-mail because employers might have to pay them.

Avoiding the potential damage of permanent layoffs may make it worthwhile for many small-business owners to navigate their way through making temporary cuts in pay and hours, Robinson said.

A labor shortage looms in five years as members of the baby boom generation begin leaving the workforce, she said. The generation that follows it is half its size. So companies that can hang on to valued workers in whom they've invested time and money will have a competitive advantage.

Primary Freight's consultant Neil Rubens, president of Motivational Training Institute in Foothill Ranch, said 10% to 15% of employees didn't benefit from motivational training. But he's watched anger and concern over the pay cuts simmer down and appreciation of the time off grow.

"They saw what they could do, rather than what they are losing," Rubens said.

Meanwhile, Primary Freight's sales rose 18% in March compared with February.

Brown credits the increase to the confidence his employees have been able to convey to potential customers after their training, a sales initiative that requires every conversation with a potential customer to include a query about additional business and his own beefed-up sales trips to clients abroad.

He has told employees that he will give the cuts, and the company's sales initiatives, until mid-May to work. Then he will decide whether to restore full pay and hours, continue the reduction or lay off employees.

By then, Brown hopes his fight to keep his employees will pay off. He believes his efforts to minimize disruption have improved the chances.

"My business would have suffered because it would have given the impression that it's all about the numbers and not the people," Brown said. "We were just trying to stay true to our culture as well as get through these tough times."