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Tough Decisions: Cutting Staff To Make Your Business Survive

How to ensure that your layoff plan is consistent with your business goals.

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It's 2009, and every business owner is facing some of the toughest decisions they have ever had to face since starting their own business. We're now in survival mode as we try and insulate ourselves from the unpredictable storm that is our economy. Many of us have panicked a little (or a lot) and are now trying to breathe and adequately assess next steps. While a good deal of our focus may be toward sales, business development, material costs, and the like, at some point, our attention turns to human resources expenses—our staffing level and the cost it carries. So how do you approach a decision about the lives of those that contributed to your success? In short, not easily.

Before Cutting Staff

Reducing compensation across the board is one way, albeit a painful way, to have a direct, long-term impact. Reducing pay for all employees by some fixed percentage (a maximum of 20%) can be done in firms where the current staff level is maxed out and performing optimally and a reduction in the workforce would only serve to burn out everyone that remains. Instead, keeping the staff intact, but paying them less, can have a desirable result. For a tight group, reducing compensation may go over slightly better than letting some of them go to the unemployment line. Bonus reduction or elimination is also a good area to consider. Lastly, having principles forgo pay or bonuses has been gaining steam as a way to save money.

Other ways to reduce expenses include reducing employee benefit coverage levels. Restructuring your insurance plans or changing carriers may gain you some savings, as everything is negotiable in this economy. There is no need to wait for renewal time, as you can leave your present carrier whenever you choose. Reducing the percent of cost the company covers is an option, but not a good one as employees may not be able to handle this added financial burden with ease.

What to Consider

If these expense reductions don't achieve the savings you had hoped for or needed, look at the staff you employ and how reducing force can help your business survive. As you assess this option, consider the expense associated with each terminated employee. Things like legal fees to assemble separation agreements, unemployment insurance costs, as well as optional benefits such as severance and outplacement services are all expenses that can rapidly add up. It's therefore critical to look at these costs carefully or you run the risk of realizing far lower savings, maybe to the point of regretting letting go of one or two of those people. On the flip side, if you do not accurately assess your business needs, you may have to have a second round of layoffs to achieve your savings goal.

When it comes to cutting staff, make decisions based on individual skill, company future viability, cohesiveness of team, and overall talent. Avoid emotion to the best of your ability. The more emotional you are about deciding who stays and who goes, the more you might adversely impact the future of your firm. Now is the time to look at facts, at RO I, and at the impact points from the perspective of your business. To that end, there are some things to consider as you assess your options more objectively. With careful assessment, you can insure that the positions (not people) selected to be eliminated are the right ones. A good gauge is to think back to when you were 25% of your present size.

Most likely, you had a smaller staff and most employees were responsible for doing a little of everything. When consolidating staff, restructure with a similar cast of characters and capabilities. You may identify who to let go on the basis of what functional areas you have the least amount of need for. An example would be after-sales support. These positions exist only as a function of the success of the sales team's efforts. In many cases, an organization can (and should) find talent internally that can sell and support, as needed.

Next, assess the talent, core skills, and overall capabilities of those within the entire organization to best decide which individuals stay and which ones go. Someone who is a utility player by virtue of having worked in multiple areas of the business, or who has a diverse

background, carries greater value to your newly configured smaller organization than someone who is a one-position player. Overall, business owners and their management team need to look at staff cuts on the basis of what capabilities those who will remain have, both in their current area of responsibility and other areas, to support the newly configured organization. Managers will know their people and their abilities, and consequently who should stay and who should go. Once information has been gathered from each manager, an executive-level group discussion can bring broad insight and eventual closure to the reorganization.
The process also should include the creation of an organizational chart of all the employees, along with some bullet points on who does what, showing the present organization as it stands vs. the new organization you are planning. List the areas you know are weakest in terms of present activity (e.g., new client on-boarding), note the owner(s) of those areas, and also note the other staff members that can aid in this activity. The purpose of reviewing the new organizational chart is to deal with the impact of eliminating staff, including determining who will now handle the responsibilities, calls, and e-mails for those who will no longer be employed. Note that the review of these charts is to be done in a highly confidential setting with decision makers only.

Before finalizing your decision of who to lay off, determine what size of workload your new organization is capable of supporting. If you are re-staffing for today's level of activity, what is your projected peak and average? If your new staffing levels can handle about 90% of what you think will be needed, then start the contingency planning for if and when capacity to support is outstripped by demand, with triggers for hiring or outsourcing. Triggers or thresholds are specific metrics you should be measuring (e.g., time to implement, queue time for support) and if they reach a level that is not consistent with your goals and objectives, that should result in steps to bring these metrics back to acceptable levels. The solution may be in the form of new hires or, if long term need is in question, perhaps outsourcing. Now you are ready to communicate the plan, including the layoffs and the reorganization.

Communicating Your Decision

All of this adds up to change, which is never easy on those that get shown the door, and in some cases, equally as hard for those who have survived the purge. What exists now may in fact be very different from what existed before. You need to account for time to communicate the changes, the reasons, the drivers, the new responsibilities, the workflow, and so on. You also need to reinforce—in as factual a way as possible—the positives about your business, the foundation on which it exists, the projected future, and how these changes will ensure that what you see in your crystal ball will evolve into reality. It's critical to be honest, to communicate in terms that your audience can grasp, and, most important of all, to be believable.

The more overly optimistic you sound, the less trustworthy you will be in the eyes of those who remain, especially those with the least level of participation in the planning for your reorganization. While the survivors may not currently have many options in terms of other jobs, if you lose their respect now, that loss may stick with them long enough that they will find a new place to work as soon as they are able. Lastly, avoid making promises or stating absolutes (e.g., "This is the last of the layoffs." or "After these changes, we are leaving things as is for the next year.") as they only serve to hurt you down the road if they prove, even mildly, to be untruths.

As entrepreneurs, we are all masters, in some form or another, at creating something from nothing, at building it to new levels, and at painting a vision for others and having them follow loyally. To dismantle, to back-step, and to recede are all foreign concepts, and ones that we don't embrace and rarely perform when we are in growth mode. That being said, now is the time to embrace the need for change and do what is necessary to improve the health of what we have built. A thoughtful move in this direction should put us back on the right track; on the track we love—the road to growth and future success.