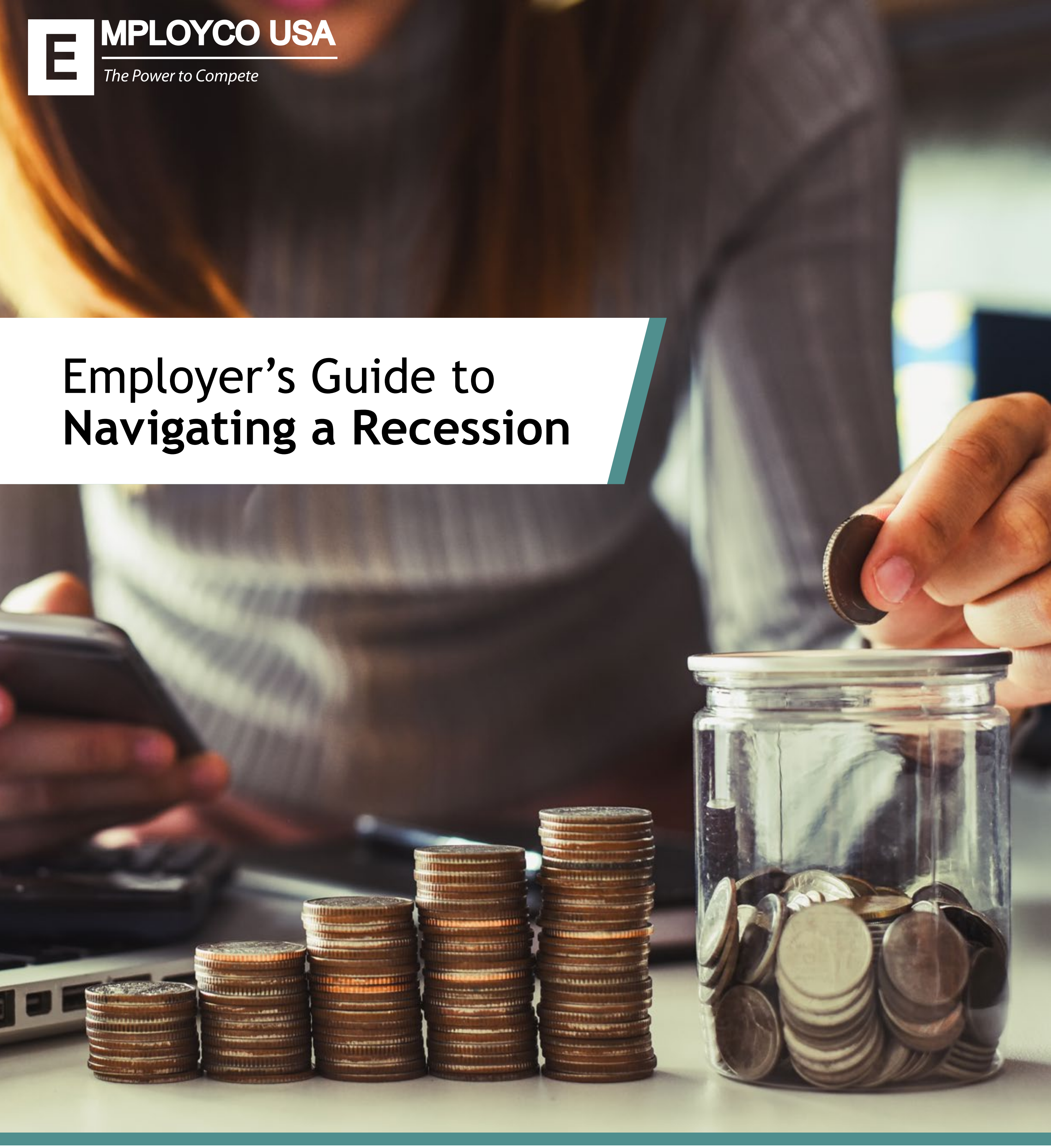
EMPLOYCO USA
The Power to Compete

Employer's Guide to **Navigating a Recession**



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Introduction

A recession is a prolonged and general reduction in economic activity that can last for several months or years, and recovery can take a long time. Experts generally declare a recession when a country has a significant decline in economic activity for a prolonged period. Such a decline could be indicated by markers such as two consecutive quarters of declining gross domestic product, increased unemployment rates, decreased retail sales and contracted manufacturing and industrial production. Recessions can be caused by a variety of factors, such as excessive debt leading to widespread defaults and bankruptcies; excessive inflation or deflation; technological advancements; stock market and real estate bubbles; and sudden economic problems that cause serious financial damage. While recessions are a natural part of the business cycle, they typically result in diminished economic output, lowered consumer demand and changes to the labor market, presenting various challenges for employers.

A recession's impact on employers can vary greatly. Employers of all sizes and industries generally experience reduced sales and profits due to changes in consumer behaviors, forcing organizations to embrace cost-cutting measures. These measures include layoffs, reductions in spending, and decreased marketing and research. A recession can also curb an organization's access to credit and lessen overall cash flow, leading to an increase in bankruptcies. The strategies employers implement to mitigate the effects of a recession can greatly impact whether their organizations withstand such an economic downturn. Therefore, employers can prepare for a recession by taking steps now to limit recession-related ramifications and maintain financial stability.

This guide provides strategies employers can use to prepare for and navigate a recession, such as assessing organizational talent, strengthening employee retention and engagement, creating effective communication channels, mitigating costs and considering downsizing options.

Preparing for a Recession

Although a recession cannot be prevented, careful preparation can greatly impact whether an organization withstands its impacts. Taking action early to prepare for a potential recession can be critical to building a resilient organization.

This section outlines steps organizations can take to prepare for a recession, including assessing organizational talent, increasing employee engagement and prioritizing retention.

Assess Organizational Talent

Ensuring organizations have the right staff in place is vital leading up to and during a recession. A critical aspect of this is to identify and retain key employees, those who have a tangible impact on their organizations' success and are difficult to replace. These employees can help organizations drive business, maintain focus and reach their goals even during periods of financial difficulty or uncertainty. If employers determine their workforces are not meeting expectations or organizational needs, they need to find cost-effective and productive alternatives, such as oursourcing or relying on contract labor. By identifying and evaluating organizational talent, employers can be prepared if they are forced to downsize because they'll be able to prioritize retaining key talent, critical skillsets and high performers.

Increase Employee Engagement

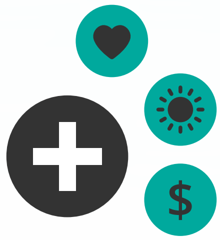
Boosting employee engagement can be vital when preparing for a recession. During periods of economic uncertainty, employees are likely to feel stressed and concerned about their futures, their employers' long-term viability and changes to their workloads. Often, highly engaged employees are more likely to accept negative work changes that may occur during a recession and remain loyal. Increasing employee engagement can improve work culture, reduce turnover, increase productivity and drive profits.

Although employers' budgets may be limited during an economic downturn, many engagement-strengthening strategies can be implemented at little or no additional cost. Organizations can strengthen engagement by emphasizing transparent workplace cultures, improving communication, providing flexibility, boosting workplace efficiency and encouraging employee feedback.

Prioritize Employee Retention

Retaining employees during an economic downturn can be challenging. Many employers cannot afford to lose staff during this time due to the high costs of recruiting and training new employees. Thus, focusing on employee retention can be critical to an employer's success when preparing for a recession. Here are some strategies for prioritizing employee retention during such periods of economic uncertainty:

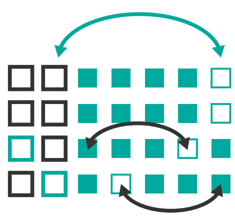
Benchmark compensation and make salary adjustments based on pay gap analysis and budget constraints.



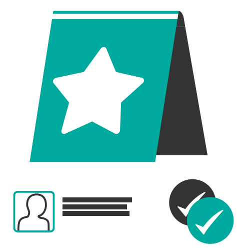
Explore benefits offerings that meet employee needs and desires, such as voluntary benefits, wellness perks and mental health resources.

Provide opportunities for learning and development, such as upskilling and career advancement programs.

Strengthen workplace culture by conducting regular employee check-ins and requesting feedback.



Offer flexible work arrangements, like remote or hybrid work and four-day workweeks.



Implement cost-effective solutions, like recognition and reward programs.

Employee retention should be a top priority for employers during an economic downturn. Organizations that are able to keep top talent are more likely to successfully navigate a recession, whereas poor employee retention can amplify a recession's negative impacts.

Mitigating Costs

A recession can have far-reaching impacts on the economy, creating various financial challenges for employers. Reigning in costs and effectively managing cash flow can be vital in weathering this time.

This section discusses cost-cutting strategies employers can implement to minimize a recession's impact on their organizations, including establishing a budget, managing health care costs, and embracing automation and outsourcing.

Establish a Recession-conscious Compensation Budget

Reevaluating and developing compensation and benefits strategies with an eye toward the future is critical when preparing for a recession. Employers can establish a budget that reduces organizational risk by avoiding unsustainable employee compensation strategies. However, this may force some organizations to make difficult financial decisions. Implementing pay freezes or eliminating nonessential expenses—such as employee lunches or membership dues for certain benefits—not only allows organizations to reduce costs but can also help ward off larger, more impactful cuts. Enacting cost-saving measures may be painful, but they are preferable to more drastic actions like reducing pay, eliminating benefits and implementing layoffs. Organizations should also consider evaluating their benefits offerings by focusing on the long term and what matters most to employees.

Employers must ensure that their cost-saving measures do not interfere with retention efforts, as employee retention is critical for navigating and withstanding a recession. Specifically, organizations need to ensure that their recession-related compensation and benefits changes do not drive away key employees. Employers should tread carefully and consult legal counsel before reducing compensation or eliminating benefits to avoid potential liabilities.

Manage Health Care Costs

Health care budgets might shrink during a recession, so searching for cost-effective solutions can allow organizations to maintain affordable employee benefits. Applying effective strategies to manage health care expenses can help employers keep their organizations' reduced benefits budgets intact without sacrificing employees' needs.

Employers can consider the following strategies:

Reevaluate plan designs and offerings.

Employers can reevaluate their health care plan designs and offerings to include cost-reducing features. Some employers might consider shifting to self-funded or partially self-funded health plans in search of cost-effectiveness. Additionally, they can use health reimbursement arrangements or health savings accounts to incentivize employees to make cost-effective health care choices. Organizations can also implement wellness programs to improve the overall well-being of their workforces by encouraging individuals to exercise daily, eat a balanced diet, reduce stress and visit the doctor as needed.

Improve employee health care literacy.

Improved health care literacy can lead to cost savings. Informed employees are more likely to reduce health care costs by making better choices, helping create a healthy workforce. This may include assisting employees in avoiding unnecessary out-of-network care or guiding them to low-cost outpatient and inpatient care options, reducing overall medical expenses for both parties. Many employers are also creating user-friendly benefits portals to educate employees and provide them with critical information, such as health plan options, forms, enrollment calendars and links to additional health care resources.

Focus on comprehensive benefits packages.

Employers' benefits budgets tend to shrink during an economic downturn. As a result, employers have fewer resources to allocate to employee benefits at a time when employee needs are high. With limited resources, organizations can adapt their benefits offerings to meet employee needs and desires, such as mental health support, enhanced leave options and financial wellness resources. Additionally, expanding voluntary benefits can effectively meet employee needs and desires without raising employers' costs.

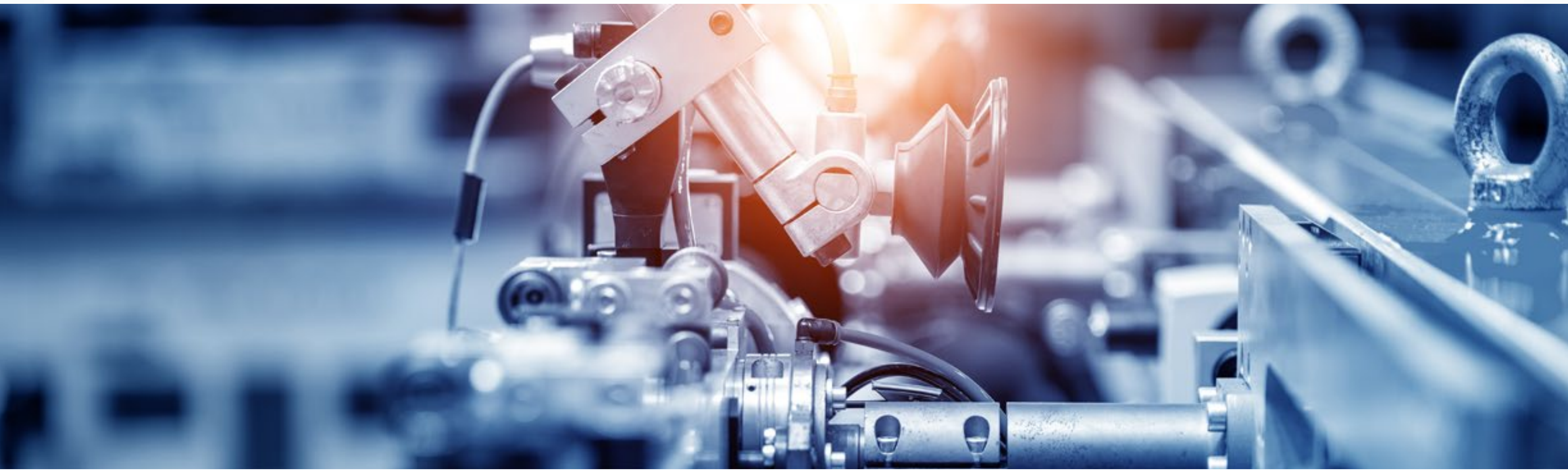
Leverage broker and vendor relationships.

Employers can ask their brokers to provide information detailing their organizational health care expenses and educate employees on how best to shop for health care options. Brokers may be able to work with employers to find ways to reduce health care costs.care resources.

The decisions employers make regarding their benefits offerings leading up to and during a recession will likely have lasting impacts on their finances, employees' expectations, and the ability to attract and retain employees. By proactively establishing long-term strategies, employers will be better positioned to manage health care costs and prioritize employee benefits affordability during times of economic difficulty.

Embrace Automation and Outsourcing

The more efficient an organization, the more resilient it will likely be during a recession. Organizations tend to stay one step ahead of an economic downturn by optimizing resources and automating where possible. Automation enables organizations to increase employee productivity by eliminating manual tasks, allowing employees to focus on more important work that can directly impact an organization financially. This shift in employee focus and productivity may be critical to an employer's survival during a recession. Automation may also reduce the number of entry-level staff organizations must employ, enabling employers to hire more skilled workers to help them grow and be more competitive.



During a recession, organizations can experience skills and labor shortages. Automation may help organizations lower costs and reduce risk by using technology to perform time-consuming and error-prone tasks faster and more accurately than employees. Employers can look for opportunities to improve organizational productivity and increase cost savings by automating operations—such as routine payroll tasks, recruitment notifications and onboarding processes—and implementing new technologies, such as artificial intelligence.

Outsourcing nonessential functions can also be an effective way to control costs leading up to and during a recession. By outsourcing functions like recordkeeping, accounting and marketing, employers can reduce labor and other costs at a time when revenue may be impacted. Employers can also leverage outsourcing to gain workforce flexibility and improve organizational efficiency by reducing errors and employee burnout.

Strengthening Employee Communications

A recession can bring uncertainty, and employees will likely be concerned about their careers and the long-term success of their employer. By establishing and maintaining strong communication channels with employees leading up to and throughout a recession, employers can keep employees informed about how the organization is performing and any potential changes—such as layoffs, hiring freezes, and compensation and benefits adjustments. Clear and open communication can reduce uncertainty and anxiety, leading to better productivity, increased trust between the employer and employees, and sustained morale and motivation.

While effective communication is essential, employers must find ways to keep employees informed without fostering their worries. Creating transparent and authentic workplace cultures can help organizations limit recession-related ramifications. Employers can facilitate transparency by providing employees with honest, accurate and timely information. This can be done by meeting regularly with employees, conducting town halls and using frequent written communication.

Organizational Downsizing

Deciding to terminate an employee is never easy, and it only becomes more difficult and complex when organizations must eliminate multiple employees. Organizations downsize for many reasons, but it's most common during times of market volatility, poor financial performance or an economic downturn. Therefore, mass layoffs frequently occur during recessions. Successfully reducing headcount can be challenging and is rarely risk-free; it can have a lasting impact on an organization and its reputation.

However, strategically approaching downsizing can help employers mitigate potential damage and put a struggling organization on the road to success.

This section outlines general considerations to help employers understand and evaluate organizational downsizing, including preparation for and alternatives to layoffs as well as potential legal risks.

Understanding Downsizing

Downsizing is when organizations reduce their operational costs by reducing headcount. This may be done by reducing workforce size through layoffs or closing facilities.

Organizations downsize for many reasons, including the following:

- Cost reduction
- Improved efficiency
- Increased profits by reducing overhead
- Technological advancements
- A recession
- Industry decline
- Mergers and acquisitions
- A national disaster or crisis
- Industry competition
- Market trends

Depending on the organization and industry, employee compensation and benefits can sometimes account for at least half of an organization's total operating expenses or, in some cases, even more. As such, many organizations reduce headcount as an effective and immediate way to cut costs. However, due to the complexities and potential exposures involved in downsizing, organizations need to be strategic and organized about their approach. Downsizing is rarely risk-free, so careful planning can help identify and address concerns and potential issues.

Organizations need to consider the costs associated with their decision to downsize. Such risks to evaluate include decreased employee productivity or morale, talent loss, future hiring challenges and the costs of early retirement and severance packages. In addition, employers must consider how best to deal with benefits administration, reference requests, employment verification, unemployment insurance claims and potential lawsuits from former employees.

Evaluating Layoffs

Layoffs may be unavoidable during a recession despite their potential negative impacts on business operations. But applying best practices can mitigate risk and set an organization up for long-term success. To ensure the downsizing process is done competently and efficiently, employers must prepare by establishing criteria for deciding which employees to lay off, evaluating the various options and risks, and developing strategies to offset the impact of layoffs.

Downsizing typically requires employers to decide which employees or groups of employees to terminate. Many organizations establish criteria for selecting which employees to lay off, such as seniority, employee status (e.g., full-time, part-time or contingent), merit and skills. In many situations, relying on a combination of criteria can be the most effective approach. Choosing objective criteria when letting employees go may help protect employers from federal, state and local regulatory violations.

When organizations downsize, employers may be legally required to provide notice under federal, state and local laws. Even when it's not legally required, clear communication is essential when notifying impacted employees that they're being laid off because it can help all employees understand why an employer had to downsize and avert layoff anxiety and other related ramifications among remaining employees. If layoffs are permanent, employers may provide employees with adequate time to search for new work or receive training to reskill. If layoffs are temporary, offering employees details about anticipated timelines for their return can help them plan for when they will be without work.

Considering Layoff Alternatives

Layoffs are not the only option for employers seeking to reduce costs by decreasing headcount. Before resorting to layoffs, an employer must evaluate the potential consequences of downsizing and consider what's best for their organization. The value created by streamlining the organization should outweigh potential risks—legal liabilities, reputational damage and decreased employee morale—and provide both immediate and long-term benefits. Layoff alternatives may effectively reduce costs without reducing headcount. If they decide a layoff is not an adequate option, employers may want to consider the following alternatives:

Job sharing	Furloughs	Reductions in employee pay, benefits or job perks	Hiring freezes
Contract or temporary employees	Part-time employees	Shortened workweek	Voluntary separation or early retirement programs

Successfully implementing an alternative—or a combination of alternatives—requires planning. However, employers may be able to minimize their need for layoffs by proactively implementing an alternative approach. In some situations, alternatives can be more effective in helping employers achieve their organizational goals than layoffs and help improve hiring efficiencies and assess long-term workforce needs.

Analyzing Potential Legal Risks

Employers need to consider potential legal risks when downsizing. Terminating a single employee can present a host of legal issues, but those risks increase with each additional employee who's let go. When deciding to downsize, employers must consider the various federal, state and local laws and regulations that employee layoffs may trigger. In some situations, these legal concerns may also apply to layoff alternatives. Typically, employers need to consider the following federal laws and regulations:

- Worker Adjustment and Retraining Notification Act
- Title VII of the Civil Rights Act of 1964
- Age Discrimination in Employment Act of 1967
- Older Workers Benefit Protection Act
- Fair Labor Standards Act
- Family and Medical Leave Act
- Uniformed Services Employment and Reemployment Rights Act
- Employee Retirement Income Security Act of 1974
- Consolidated Omnibus Budget Reconciliation Act
- Health Insurance Portability and Accountability Act of 1996

In addition, employers may need to review state laws or local requirements regarding unemployment insurance, severance pay, accrued and unused paid time off, vacation pay, sick or other leave, and personnel records.

This guide only provides an overview of potential legal concerns resulting from downsizing and an introduction to some of the applicable laws. Employers are encouraged to seek legal counsel to discuss specific issues and concerns.

Employer Takeaways

A recession can create numerous challenges for employers, often requiring them to adapt for their organizations to survive. By preparing and implementing multiple recession-proofing strategies, employers can build resilient organizations and minimize the financial hardships of an economic downturn. Proactive employers will not only be better positioned to navigate a recession but may also find opportunities for growth and increased efficiency.

Contact us today for more information and to request additional recession-related resources.