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RIF or no RIF: 8 alternatives to consider before laying off staff

By Charles Lentz, Esq.

If your organization isn't already planning or implementing measures to cut labor costs, it may soon have to. News that the United States has been in a recession since December 2007 suggests that HR professionals should prepare to reduce the labor burden—if only as a contingency plan.

Frequently—and too simply—the decision comes down to which employees to lay off. But, reductions in force—RIFs—are not the only mechanism for achieving labor-cost savings. It pays to consider alternative approaches before deciding to begin layoffs or voluntary-exit incentive programs.

The pros and cons of RIFs

Whether voluntary or involuntary, workforce reductions have positive attributes. RIFs are relatively easy to conceptualize, and your employees may even expect one is coming. RIF decisions can be made quickly and the results are predictable—the cost savings are easy to calculate. In some circumstances, a temporary layoff can also be reasonably simple to execute.

On the other hand, cutting staff is frequently cumbersome, time consuming, legally risky and expensive.

Layoffs almost always create employee morale issues and can produce an "echo" effect as more workers resign in anticipation that additional cuts are coming. Plus, not all employees will return when business picks up, leaving the organization with recruiting, hiring and training costs.

8 alternatives to layoffs

There are alternatives worth considering. Not all of them make sense for all organizations, but simply thinking through these alternatives may spur discussion of other, creative alternatives that would more aptly suit a specific employer.

Here are some alternatives to consider.

1. Reduced work schedules. Instituting reduced work schedules—whether voluntary or involuntary, and whether limited to certain departments or made across the board—will lower labor costs. Consult your attorney before making changes to exempt employee schedules, though, so you don't inadvertently convert them into hourly employees entitled to overtime.

2. Hiring freezes. Trimming the workforce through normal attrition and a freeze on hiring is a passive, nonthreatening approach that will have less impact on employee morale. It may not, however, be easily quantifiable and may only be suitable for long-term savings.

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3. Overtime restrictions. Reducing or eliminating overtime pay is an obvious approach to cutting labor costs. But directing employees not to work overtime does not translate into automatic savings. If employees work overtime even after they have been forbidden, you must still pay them for those hours.

In other words, a decision to ban overtime does not support a refusal to pay overtime. Failing to pay overtime for hours worked in excess of 40 in a workweek is, in the absence of any applicable exceptions, a violation of the Fair Labor Standards Act—even if the overtime work was in violation of company policy. You can punish employees who work unauthorized overtime, but you cannot refuse to pay them for that overtime.

4. Work process redesign. You can save money by reorganizing the way work is done. Making the process more efficient means work is done in less time. Replacing higher-paid positions with lower-paid jobs reduces overall compensation. Remember, though, that demotions are an adverse employment action that could bring discrimination claims.

5. Transfers. Even if you don't reorganize work processes, employees in higher-paid positions can, sometimes, be transferred to lower-paying positions. Again, demotions may bring discrimination charges.

6. Cuts in wages and benefits. Across-the-board cuts in wages, reductions of salaries or benefits cuts can accomplish quick cost savings without a great deal of organizational reshuffling. Consult company policies, procedures and benefit plan documents first.

7. Restrictions on temporary or contract employees. An obvious way to achieve labor cost savings is to "lay off" temporary or contract employees. Again, consult applicable contracts first.

8. Unpaid leave or sabbaticals. Offering employees the option of taking unpaid leave (or sabbaticals) will decrease labor costs in the short term. Offering partial pay for employees who agree to work in particular service or nonprofit organizations can be an inducement for some employees to go on leave.

Talk to your attorney

Your labor-cost cutting can still expose you to legal risks even if you decide not to lay off employees. Contracts, discrimination laws, wage-and-hour laws and even the Worker Adjustment and Retraining Notification (WARN) Act (which governs layoffs) may apply depending on the choices you make. Consult with legal counsel before implementing any cost-saving measures that affect employees.

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