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FINANCIAL FOCUS



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Your Accounting for a New Economy

Ask the Advisors

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Should I lay off employees from my small business?

With today's troubled economic conditions, more employers are facing this difficult question. Layoffs are no fun for anybody. It's hard for the workers who lose their jobs, it hurts the morale of remaining workers, and it can be a financial and emotional hardship for small business owners who typically have dedicated resources to develop their workers' skills, and often have social ties with their employees.

To help answer this question, first determine whether cutting payroll expenses is your best course of action. Remember, there is a cost to laying off, rehiring, and training employees. Perhaps it would be wiser to obtain an infusion of cash from investors, or cut other budget items instead, such as employee benefits.

Next, consider other options. For example, it may be better for both you and your employees if you retain everyone but reduce wages across the board.

Or, you could change your workers' schedules, cutting back hours. Now may be a good time to consider instituting a four-day work week or have full-timers become part-timers. Check to see if your state government will help by offering unemployment benefits to workers who must go part-time (a few states do).

If layoffs are necessary, carefully consider your business needs. Some persons may be vital to the success of your company, and laying them off may not be a valid option. On the other hand, this could be an opportunity for some housecleaning. Make your company more efficient by trimming excess staff, or letting go unneeded management and poor performers.

Before making any terminations or layoffs, however, seek legal advice to avoid any potential employee lawsuits. You'll need to comply with certain federal and state laws, and any employment or union contracts.

How should I lay off employees from my small business?

Employee layoffs are not easy for any business owner. Here are some tips for a smoother process.

- Do it right the first time. Letting go all the appropriate individuals can prevent a potentially traumatic and costly “second round.”
- Get good legal advice. It is imperative that you understand your workers' rights and fulfill your legal and contractual obligations. For example, affected employees will likely be entitled to state unemployment benefits and COBRA extended health benefits, and you may have to give proper notice under the Worker Adjustment and Retraining Notification (WARN) Act. You want to avoid any possible discrimination or other lawsuits that might ensue.
- Attend to the details ahead of time. Have all relevant documents and programs, such as severance packages, letters of recommendation, and outplacement services, ready to go. Be prepared to answer any questions your workers may have. Being organized, efficient, and thorough may ease the sting felt by both outgoing and remaining employees.
- Proceed with tact. Deliver the bad news with compassion and respect. Express regret and concern. Give as much financial and personal support as your business can allow. Provide hope if rehiring when things get better is a real possibility. Let workers finish the day or week, if possible. Allow them to pack up and say goodbye to colleagues. Show them to the door. Keep in touch. Following the “golden rule” will hopefully soften the blow for those moving out and boost the morale of those staying on.
- Get back to business. Be open about the event with your remaining workers. Provide assurances when possible, show confidence, and lead your company forward to a brighter future.