

***Staying Ahead
of the Downturn:***
A How-To Guide for Hawai'i Employers

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About the ALTRES companies, founded in 1969

ALTRES HR is Hawai'i's largest, most experienced human resources department. Serving as the HR “back office” for hundreds of Hawai'i businesses on six islands, the company's 100 employees provide employment administration, human resources support, payroll processing, workers' compensation coverage, safety, risk management and benefits administration covering thousands of employees statewide.

ALTRES Staffing is Hawai'i's largest employment services company. With four specialized staffing divisions—Office/Professional, Industrial, Technical and Medical—the company solves business problems by recruiting and placing experienced, pre-screened, and pre-qualified employees in temporary, temp-to-hire, direct-hire and contract positions throughout the islands.

“Staying Ahead of the Downturn: A How-To Guide for Hawai‘i Employers”

This is the second in a series of white papers designed to help Hawai‘i businesses think differently about the human capital that drives their organizations. Because many Hawai‘i employers may not have ready access to human resources (HR) expertise, we hope the information provided here makes being an employer in Hawai‘i a little easier, especially in a slow economy.

YOUR EMPLOYEES ARE YOUR MOST VALUABLE ASSET

As global and local economies cycle downward, many organizations in Hawai‘i are restructuring, downsizing or simply waiting and worrying. Yet, in the long run, these may not be optimal responses, either for your company or for the communities in which you operate.

Recessions are a logical phase in every business cycle and are often followed by a period of economic vitality. Instead of fearing downturns, local business owners should actively position themselves to leverage the next logical step in the economic flow— innovation and corporate growth. Recessions are a period of corporate rebirth; they offer an opportunity to improve the strength and talent of a company and reestablish the organization in a new competitive light.

In such uncertain times, businesses too often lose sight of the fact that their employees are the foundation of their existence and success. While many companies use downturns as a reason to cut back, forward-looking business leaders will do the opposite—using this time to strengthen their bonds with their employees, investing in them and nurturing their abilities. They will focus on improving and inspiring their teams and applying those human resources effectively. Despite uncertainty about the future, savvy business leaders understand that their employees are their most valuable assets and that their organizations can go only as far as the people who drive it.

The term “human capital” may feel impersonal to some, but it suggests a valued asset, far beyond the scope of words such as “workforce,” “labor” or “employees.” Now is the perfect time for Hawai‘i employers to protect their human capital and invest in its future value. The bottom line? Happy employees make for happy customers, and satisfied customers keep a business afloat.

Top 5 Mistakes During a Down Economy

1. **Cutting talent.** Laying off employees is a quick fix, but talent is the foundation of your business.
2. **Avoiding risk.** Recessions have a tendency to lead to conservative behavior, but if you want to inspire innovation, you must be willing to take chances.
3. **Halting the creation of new products and /or services.** This can damage a company in the long run. When growth returns, you have fewer products and services in the marketplace to attract customers.
4. **Eliminating innovation.** Business leaders often replace innovation with cost-cutting tactics, but it is difficult to reverse this behavior once the market bounces back.
5. **Replacing collaboration with hierarchy.** Control management stifles creative thinking and prevents a collaborative organization.

A DOWN ECONOMY IS AN OPPORTUNITY

An economic downswing can offer your organization an excellent opportunity to bolster its foundation and prepare for the inevitable upswing. Companies that do little more than simply riding out a down economy are often slow to respond when business picks up again. Meanwhile, competitors that have been actively improving and preparing themselves often race ahead when the going gets good again.

Especially in our island community, the general public takes notice of how employers choose to deal with a slower economy. For example, an established

company that's quick to reduce headcount and lay off staff not only risks damaging the morale (and loyalty) of its entire workforce. It may send a message to the wider community that the company doesn't value the contributions of the workers who helped create value and generate profits in the past. This perception can damage a company's brand and adversely impact future sales statewide.

Remember: great companies are built over decades, and recessions come and go. If you act as if you're in it for the long haul—in your own thinking and in your relationships with customers, employees, the community and investors—you are much more likely to create success.

This white paper presents three imperatives to Hawai'i employers who want to take action in the current economic climate to improve their businesses, maximize the value of their people assets, and prepare for new business opportunities.

- A. Get your house in order**
- B. Focus on your employees**
- C. "Smart-size" your business**

By taking practical steps now, your organization can emerge from a downturn stronger, focused, and ready for action.

"The best companies treat employees the same way they treat their business lines, as something to be carefully analyzed and strategically developed in support of their business goals.... As a result, they are more competitive in the marketplace..."

Stephen Joyce
The Hackett Group, a strategic advisory firm

GET YOUR HOUSE IN ORDER

During times of expansion and growth, many organizations are so focused on bringing in new business that they often fail to invest sufficient resources in the people and systems required to support that business over the long term.

When business activity slows, however, companies have an opportunity to re-direct some attention—and resources—inward. Now that you have more time and resources available, what can you do to improve the business? Consider this an investment in your organization's future. This is a time to act differently than your competition.

Re-deploy staff to new or overdue projects.

A slow business period is an excellent opportunity to work on new or overdue projects that may have been put aside during busy periods. Once you've identified your projects, assign certain employees or teams to complete tasks on a weekly basis.

Rather than laying off staff, why not re-assign some of your people resources from one area of the business to another, or commit them to special projects? Most employees want to remain employed and make a meaningful contribution to the business. They are already familiar with the organization; so it's often more cost-effective to re-direct their energies temporarily instead of using external resources or new hires in the future when needs become critical.

Reevaluate your goals and objectives.

Devote some time to assessing your existing business goals. Are they up-to-date? Are they still relevant? Does your business strategy need an overhaul?

Improve, simplify and eliminate.

This is a time to examine every facet of your business to look for inefficiencies and waste. Consider every business system you currently have in place: is it the right system? Can you improve upon it? Are there redundancies or complexities to eliminate? Is there clutter in your organization that can be cleared?

When people are perceived as a cost to business and not a resource, they no longer feel engaged in their work or committed to the company.

Cross-train your staff.

A slowdown in business is an excellent time for cross-training and for documenting company processes and procedures. These steps can help release an organization's dependence on specific individuals. It also offers employees low-cost opportunities to learn and grow, and can boost employee morale. Perhaps you have certain employees who may have potential to work in sales. Why not let them shadow existing sales reps on appointments? Cross-training is great preparation for when the economy picks up.

Strengthen your individuals and teams.

As we explore in detail in the next section, getting your house in order also means devoting more attention to your people assets.

FOCUS ON YOUR EMPLOYEES

When business growth is replaced with flat or decreasing revenues, smart companies in Hawai'i focus on their customers. Reinforcing relationships, demonstrating value, and asking for referral business are common best practices. However, customer relations is only part of the big picture.

To take full advantage of an economic slowdown, employers must also bring new focus to their employees. Remember, happy employees mean happy customers. Retaining your best employees correlates directly to retaining your best customers and attracting new ones.

According to Judith M. Bardwick, author of *One Foot Out the Door: How to Combat the Psychological Recession That's Alienating Employees and Hurting American Business*, many employees are afflicted with a condition she calls the "psychological recession." She describes it as an emotional state in which people feel

extremely vulnerable and afraid for their futures. It is especially relevant in business because chronically fearful people expect the worst to happen, so they see no reason to give their all for their employers. When people are perceived as a cost to business and not a resource, they no longer feel engaged in their work or committed to the company.

Given Bardwick's research, it's critical to ensure that your employees know they are valued by the organization. To do this, you need to implement effective strategies that engage them in the business and enhance their loyalty. If you invest in your employees now, your company is more likely to emerge from an economic downturn in a strong position, with your best talent focused and intact. With careful planning, you should be able to turn the current "crisis" into an advantage.

Communicating with your employees is critical

Effective communication (or the lack thereof) can have significant effects on employee retention, employee effectiveness, and your company's performance. It is also critical to making sure employees feel valued. According to a study by Watson Wyatt, a leading global consulting firm on people and financial issues, organizations with highly effective communication experienced a 47% higher total return to shareholders from 2002 to 2006 and were four times as likely to report high levels of employee engagement, compared with companies that communicate least effectively.

Without consistent and regular information, employee fears of the unknown can begin to erode productivity and negatively impact customer service.

Without consistent and regular information, employee fears of the unknown can begin to erode productivity and negatively impact customer service. Workers often harbor fears of change, the possibility of layoffs, and the prospect of increased workloads due to reductions in staff. Employees need reassurance. Communicating the reality of your company's situation frequently will help provide employees with a sense of security, even if you don't have all the answers at the moment. Honesty is an antidote to fear.

There are many ways to improve your company's communications:

1. Make the choice to keep employees informed.

Launch an internal communications plan to update employees regularly. It's important to keep staff aware of the impact of executive decisions, particularly during a down economy. This extra effort will help employees understand the reasoning behind any changes, and they will be more apt to adjust accordingly. Your internal communications plan could include weekly briefings, a company newsletter, and periodic emails with the latest news.

2. Be truthful.

Don't make the mistake of sending a sincere e-mail message or memo about the slow economy only to follow it up with internal newsletters or intranet postings that talk about how great business is. The disconnect between corporate spin and how employees are feeling will result in lost credibility.

3. Be timely.

Coordinate your internal and external messages and be timely. Employees should hear company news from the company first. Employees should never hear about changes to their company from the media or family and friends before they've been informed by their employer.

Keep your employees engaged in the business

An engaged employee is a person who is enthusiastic and emotionally connected to his work. A recent national study indicated that highly engaged employees are more committed, demonstrate greater loyalty, and are more focused on their contribution to achieve company goals than the average worker. Therefore, companies that engage their employees tend to enjoy higher retention rates. Consequently, recruiting and training costs are lower and productivity is higher. Ultimately, high productivity and retention are two factors that can directly impact a company's financial performance.

Here are some specific steps you can take to keep your employees engaged and dedicated:

1. Connect employee goals with company goals.

Clear concise goals mutually agreed upon by both employee and manager improve communication and strengthen your company. Set specific, measurable performance goals for individuals and groups. Ensure each employee understands the company's goals and how his or her performance affects achieving those goals. Discuss the many ways goals are achieved and the performance implications of each. Develop incentive systems that reward employees for positively contributing to the achievement of company goals and clearly explain how performance is measured.

Signs That Your Employees Are Engaged

Engaged employees:

- Go above and beyond their duties
- Volunteer for projects and assignments
- Offer to assist others outside normal responsibilities
- Demonstrate innovation
- Are passionate and motivated
- Help other team members
- Take on new initiatives
- Recommend the organization to others
- Offer ideas for improvement

Source: Watson Wyatt

2. Get to know your employees.

Learn about what causes stress for your employees, what excites them, and how they define success. This will show that you have an interest in their well being and, when necessary, will do what it takes to help them feel more fulfilled and better balanced.

3. Invest in your employees by offering career advancement.

Create career-related opportunities in every assignment and explain how every assignment is an opportunity for employees to work on long-term goals. This approach demonstrates to employees how their performance or participation can lead to greater visibility, more recognition, or additional career-related skills.

For example, you could have your employees:

- Participate in a task force to solve a business problem or complete a project.
- Take classes that enhance their skills and will be useful to them in the future.
- Train other employees. (This assignment can enhance an employee's credibility and establish her as an expert in a particular subject.)
- Participate in organizing a charity event for the company. (This can involve interacting with key leaders in the organization.)

4. Reward and recognize employees in ways that are meaningful to them.

To encourage your employees to work on long-term goals, be sure to acknowledge both their efforts and their accomplishments. By recognizing your employees' work effectively, you reinforce the actions you want to see repeated. An effective employee recognition system is simple, immediate, and powerfully reinforcing.

In fact, it can be very costly for a company not to reward their employees, because when people don't feel recognized or rewarded, they disengage from the organization. Morale and productivity may suffer and employees may start looking for other job opportunities. If you want your employees to excel consistently in their jobs, reward them in some

Inexpensive Ways to Reward Employees for a Job Well Done

- **Say "good job" with a card and a gift certificate** – A simple greeting card acknowledging a job well done and a gift certificate to Longs or Jamba Juice can go a long way to making an employee feel appreciated.
- **Host a lunch** – Have a meal catered and served to your staff.
- **Offer paid time off** – Consider offering a full day's pay for half a day's work.
- **Give away coupons** – Search for discounts and develop a program to give these away to your employees.
- **Tap into local partnerships** – Find vendors or other local businesses that could provide a service to your employees at a discounted rate such as dry cleaning or car services.
- **Offer flextime** – Provide flexible work hours for your employees to help them balance their work and home life.
- **Offer job sharing** – Encourage your employees to learn new skills in different areas.
- **Provide incentives for innovative ideas** – If an employee suggests a good idea to improve the company, offer them a local gift certificate.
- **Create an employee recognition program** – Start a Wall of Fame featuring employees on a company intranet, offering gift cards, prime parking spot, and handwritten thank you notes from supervisors.

way. At the very least, reward your employees for exceptional service whenever it occurs. There are many ways to recognize your employees that cost little or nothing (see sidebar above).

"SMART-SIZE" YOUR BUSINESS

Smart-sizing is not a fancy synonym for layoffs. Quite the opposite, it means taking a thoughtful approach to doing what's best for your business now and in the future.

Make sure you have the right people in the right positions

As noted in a previous ALTRES white paper, the most successful companies have the right individuals in the right positions (see *"HR Secrets for Hawai'i Employers"*). This not only means having the appropriate number of employees, it also implies that employees should be hired according to how they "fit" into the organization rather than hiring simply based on existing skill sets.

Consider your current staff: Do their personalities and work habits match the duties for which they are currently responsible? Do you have a comfortable number of employees who are suited for their jobs, or do you feel you're just getting by and could use extra help? If you feel your existing staff are working to their capacity, consider hiring temporary or contract employees to handle additional tasks or assist with projects that are not directly related to your core business.

The simple fact is that in a down economy, the number of skilled jobseekers looking for work increases. Job candidates with skills that were once difficult to find in Hawai'i are now more likely to be available. With more talent available, this may also be a good time to take a close look at underperformers in your organization and explore new job candidates who may be on the market.

This is also a good time to fine-tune your talent acquisition. Sound recruitment and hiring processes, based on industry best practices, can help ensure that you hire the right people for the job, preventing the cost of termination in the future.

With ideas such as performance-based hiring, the focus is less on credentials and more on the candidate demonstrating ability and accomplishments through work samples, tests and job-related exercises. Additional tools include a job description based on performance outcomes and a method to assess whether

or not candidates meet the requirements of the job description. An ideal job description should include specific and measurable performance objectives. Tools to assess each candidate's abilities to meet the performance objectives (such as tests, exercises that mimic job tasks, etc.) enable you to determine which candidate will add the most value to your organization.

Determine the right mix of permanent and temporary employees

Are your full-time employees performing tasks not directly related to your core business? Could certain activities be delegated more cost-effectively to temporary or contract employees? If this is the case, perhaps you should rethink how you are using your full-time staff.

Hiring temporary employees for limited periods can allow your full-time staff to concentrate on core business or critical projects. Full-time employees can ensure that business is running smoothly throughout the week, whereas temporary employees can provide extra help without the financial and administrative burden required by full-time hires.

Hawai'i businesses that take advantage of temporary staff from a professional provider find that the overall cost of that labor is far lower than recruiting, hiring, on-boarding and administering staff on their own. The administrative burdens, such as the direct costs of employee benefits, payroll withholdings, and workers' compensation coverage, are virtually eliminated when working with a staffing organization.

Outsource non-core functions to gain efficiencies (and contain costs)

Whether in times of growth or times requiring cost containment, outsourcing certain parts of your business can have a direct, positive impact on productivity and profitability. Regardless of the economic climate, outsourcing enables local businesses to focus on their core business activities.

"There's a simple litmus test business owners can use to consider whether or not to outsource [a business activity]," explains ALTRES president and CEO, Barron Guss. "If your customers find value in it, don't outsource. However, if your customers truly don't care

who supports your computer network or processes your payroll, those types of activities are prime candidates for outsourcing.”

While outsourcing in the U.S. has increased steadily since the 1970’s, when companies such as Pitney-Bowes and Xerox started providing “vendors on premise” services, businesses of all sizes are now outsourcing everything from bookkeeping and IT to human resources administration and call center support.

Here are two areas of outsourcing that are becoming increasingly popular among businesses in Hawai‘i.

Human Resources Administration

The administrative burdens of being an employer (i.e., having employees), especially in Hawai‘i, can easily detract valuable employee time and company resources from an organization’s core business. More and more, businesses of all sizes are outsourcing the following activities:

- Employment-related paperwork
- Government compliance
- Workers’ compensation
- Healthcare plans, retirement plans and other employee benefits
- Benefits administration
- Payroll processing and withholdings
- Human resources support for staff

Organizations that decide to outsource these non-core activities to a single, certified provider can experience the following benefits:

- Greater productivity
- Increased profitability
- Less time spent on “back office” administration
- More time spent on core business activities
- Reduced liabilities
- Lower labor costs

Recruitment and Staffing

Many local employers do not have trained professionals on staff to handle the tasks of recruiting, screening and hiring employees that best fit the organization. Even in a down economy, companies must still employ the right number and appropriate type of people, whether they’re full-time hires, contract employees or temporary staff.

There are more than a dozen steps involved in recruiting and hiring a single individual:

1. Assessing position requirements
2. Creating compliant and accurate job descriptions
3. Advertising open positions
4. Processing applications
5. Reviewing and comparing résumés
6. Performing telephone screening interviews
7. Scheduling and conducting in-person employment interviews
8. Assessing soft skills (personality traits)
9. Assessing hard skills (from accounting to construction)
10. Conducting reference checks (including employment and education verifications)
11. Planning and executing the job offer
12. Conducting background checks
13. Coordinating drug tests (pre- and post-offer)
14. Verifying applicants’ right to work

To be accomplished successfully, these steps demand time, money and expertise. By off-loading these responsibilities to an experienced recruitment and staffing services provider, local companies can better focus their resources on essential business activities and contain costs, especially the costs of a bad hire. (For a discussion of the true cost of employee turnover, see “*HR Secrets for Hawai‘i Employers*”) available online at altresHR.com/secrets.

IF LAYOFFS ARE REQUIRED, HANDLE THEM CAREFULLY

Unless it's absolutely essential for the survival of the business, laying off staff can be one of the worst decisions a company can make. The long-term damage to employee morale, team productivity, and customer relationships can take years to overcome.

Unfortunately, business owners often feel forced to make layoffs during economic downturns. If layoffs become a necessity, you can make the best of a bad situation and conduct them respectfully. Here are suggested guidelines:

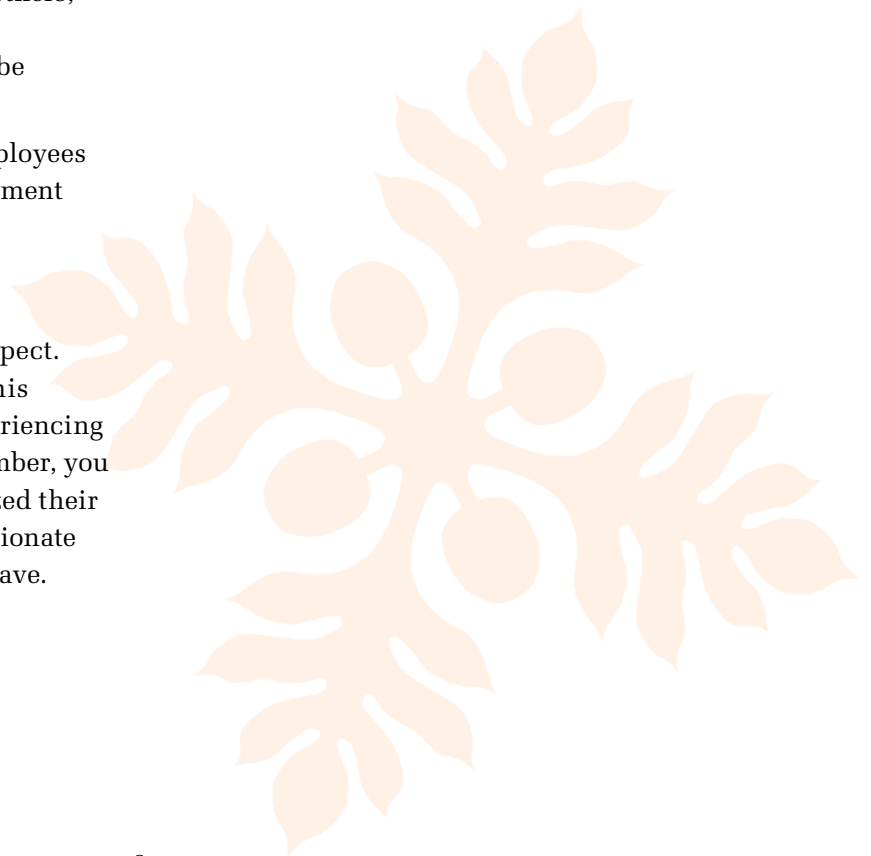
Before announcing layoffs


- Before rumors get started, it's best to announce to the entire staff that reductions might be necessary.
- Enlist the assistance of a human resources professional or an employment attorney to ensure compliance with state and federal laws.
- Prepare a script or bullet points for communicating the decision to individuals, and make sure those delivering the message are coached in advance.
- Communicate with vendors, business partners, and customers to assure them that their relationships with the company will not be adversely affected.
- Gather resources to assist terminated employees in job hunting and/or filing for unemployment support.

How to inform employees of a layoff

- Conduct layoffs with compassion and respect. Be sensitive to the fact an employee and his co-workers will go through a period experiencing loss, and even mourning that loss. Remember, you hired the employee because you recognized their strengths, so it's important to be compassionate and treat them with dignity when they leave.

- Be sure layoffs are handled by managers or owners.
- Inform employees individually, never in a group.
- Explain the decision clearly and discuss next steps, such as severance pay and the last day of work.
- Give advance notice. (Two weeks notice is customary but, if possible, it's better to give an employee at least a month's notice.)
- If you choose to give the employee advance notice, offer him the option of working through the notice time period or leaving the company that day.
- Although not required, consider offering some kind of severance payment. Some employers give the employee one week of pay for every year of service. However, you can set a maximum, such as four weeks. Most importantly, offering severance is a sign of respect. Treating departing employees with respect will help the healing process and have a positive effect on remaining staff.





To learn more about managing your people assets effectively during an economic downturn, contact the ALTRES companies.

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altresHR.com

(808) 591-4900 (Oahu)

1-800-375-1955 (Neighbor Islands)

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S T A F F I N G

altres.com

(808) 591-4940 (Honolulu)

(808) 456-6699 (Pearl City)

(808) 329-1341 (Kailua-Kona)

(808) 887-6216 (Waimea)

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