Top 4 Things Employers Can Do to Prepare for a Possible Recession – and Top 3 Things to Ease Workers' Inflationary Concerns

Insights
7.28.22

With the announcement this morning that the country's economic numbers have declined for the second straight quarter, many employers are fearful of a possible recession, or at least a sustained economic downturn – and are wondering what they should do to prepare. After all, we're dealing with a declining stock market, soaring inflation, and reports of hiring freezes. Meanwhile, your workers are probably on edge and no doubt dealing with inflationary concerns, adding to the tension we all feel each day. What four options should you consider to ensure you are positioning your organization to weather the storm – and what three steps can you take to relieve the inflationary strain that your workforce is no doubt dealing with?

What is a Recession?

It's important to make sure we're on the same page when it comes to defining what is and what isn't a "recession." Many people think there's a hard-and-fast rule that says a recession occurs if we have two straight quarters seeing a decline in the gross domestic product (GDP). But the truth is a little more nuanced than that.

Traditionally, the National Bureau of Economic Research determines the unofficial start and end of a "recession," defined by the non-profit research group as "a significant decline in economic activity spread across the economy, lasting more than two quarters, normally visible in GDP, real income, employment, industrial production, and wholesale-retail sales."

The first quarter of the year saw a 1.6% contraction in GDP, the first non-COVID decline in over a decade. This morning, the Bureau of Economic Analysis announced that U.S. economy shrank at a 0.9% annualized rate in the second quarter. Yet job growth is still strong, the unemployment rate is low, and consumer spending remains relatively robust. This leads many economic experts to believe we are not in a recession.

Since the end of WWII, the U.S. has endured 13 recessions. The most recent was also the briefest on record – the COVID-19 recession lasted just two months in early 2020. But it also saw a 19% decline in GDP and 14% unemployment, which are the greatest in both categories since the 1930s. Only three recessions since the Great Depression lasted more than year (the Great Recession in 2007-2009 lasted 18 months), and most saw a GDP decline of somewhere in the 2-3% range.

4 Steps to Prepare for Sustained Economic Volatility

Regardless of how long the current state of economic uncertainty lasts – or how deep it cuts – here are four options to consider to prepare your organization to withstand the downturn.

1. Consider Creative or Alternative Staffing Options

The first solution involves building or managing your workforce in a different manner in order to maintain maximum flexibility. Many employers have increased the use of **temporary or part-time workers** to supplement their workforce during periods when it might not be prudent to hire full-time staff. Other employers have taken a page from the book of gig economy businesses and turned to independent contractors for **gig-like assignments** – but note that this could raise legal risks in some states, so check with your legal counsel before deploying such a workforce.

To enhance the productivity of existing workers, many employers are implementing **alternative work schedules** to benefit both the business and the work-life balance of employees. This could include introducing flextime, compressed workweeks, job-sharing, and other arrangements. Of course, this solution requires you to review the state and local wage and hour laws to ensure you are in full compliance before implementation. Others are **cross-training their employees** for different or varied roles in order to provide greater flexibility and to offer increased hours to those employees who want to expand their capabilities.

Finally, while this option involves an investment in infrastructure, many employers are also **using technological solutions** to reduce labor costs. Depending on the industry in which you operate, this investment could pay off in the long run for both your business and your workforce, freeing them up to accomplish more rewarding goals instead of menial and repetitive tasks.

2. Determine Whether You Need to Do Belt-Tightening

It might be more of an old-school approach, but many organizations are doing some basic belt-tightening in order to balance the ship as we deal with economic uncertainty. Some of the more common tactics aren't necessarily cutting-edge or innovative, but they are worthy of consideration:

- Reducing office expenses
- Limiting or prohibiting business travel
- Scaling back departmental budgets
- Managing cash flow more aggressively
- Reducing the physical footprint of office space

3. Focus on Workers – and What May Be Coming Down the Pike

If you are taking a longer-range approach, you may start to envision what you'll need to do several steps ahead if the economic uncertainty lingers…and if you are in a hard-hit industry. Especially for those businesses that are dealing with a softening labor market, the time might have arrived for you to **raise the bar when it comes to hiring** to ensure that only highly qualified workers are brought aboard.

After all, during the better part of the past two years, most employers were navigating through a workforce shortage crisis that may have led them to retain unqualified or unskilled workers to fill roles that were otherwise not being staffed. Given that you may be able to be a little pickier now, your organization may want to consider ratcheting up your standards.

Similarly, the time might have come for you to **scrutinize your workers' performance** and hold them accountable to your disciplinary policies and overall quality standards. If you have been putting up with substandard behavior or productivity knowing that you had no viable alternatives if you were to separate the poor workers, you should consider now whether you have more room to maneuver.

But if you start heading down this path, recognize that there is a greater chance that you will face legal claims when you begin to hold workers accountable – especially if your measures lead to discipline and terminations. Last year the market was so hot that any worker who lost their job could move on to find another position in no time at all – probably with a big signing bonus and a pay raise – which meant they were more likely to put any problems they had with their prior employer in the past. But now that the job market is tightening, there are greater odds that an employee separated from employment will turn to a plaintiffs' attorney or government agency to complain about the situation.

That means the time is now for you to **invest in preventive efforts** to reduce possible legal exposure after possible terminations down the road. It starts with the basics – making sure your policies are up to date, your handbooks are in order, you have signed acknowledgements in place for all employees, and your standards are clearly announced to all your workers in provable form. But it goes beyond that. An internal audit – performed in concert with your legal counsel – to address your wage and hour compliance, your pay equity standards, and other critical efforts – would be a good idea. And if you haven't conducted basic refresher trainings for your management (and your HR staff in particular), now is the time to plan them.

4. Consider Options of Last Resort

Unfortunately, some employers may need to take more dramatic steps to address the period of economic uncertainty. If you decide to **slow your hiring or implement a hiring freeze**, you wouldn't be alone. Job growth in many sectors is slowing – the number of active postings on the major online hiring platforms has now declined for six straight weeks – and you may find yourself needing to put the brakes on as well.

We don't recommend **reducing compensation or benefits** as a solution that you should take without serious consideration and coordination with your legal counsel. This step will negatively impact company morale and could lead to attrition among your valuable workers. It also raises numerous legal issues, and therefore should only be considered as a matter of last resort.

If you have to take the most drastic step – **reducing your employee count** through reductions-in-force or wholescale elimination of operations, plants, offices, or departments – you will also want to coordinate with your workplace law counsel before proceeding. There are a whole host of legal considerations to take into account before taking this step.

Consider These 3 Steps to Ease Inflationary Concerns Among Workers

Meanwhile, your employees are no doubt dealing with inflation just as your organization is. They feel it every time they head to the gas station or the grocery store, and you can play a role in easing their concerns. There are three steps you can consider to help them through these tough times – each of which will build goodwill and loyalty with your workers.

1. **Put Cash in Pocket**
   The most direct and impactful way you to aid your employees is by putting more money in their pocket. A significant number of employers are offering **bumps in pay** to match cost-of-living increases, which is no doubt an appreciated gesture (and one that many employees think is deserved). Other employers are providing **gas subsidies** or offering **subsidies to encourage mass transit** to those workers who commute to the workplace. Finally, some employers are offering **short-term employee loans** to help offset temporary struggles.
2. **Build Financial Flexibility**
   You can also consider offering flexibility to your workers to help them retain their money. This could include **permitting employees to work from home** to save on expenses, or providing **savings matching programs** to boost their savings.
3. **Address Fears Directly**
   Finally, you may want to consider offering resources to workers to help them confront their fears or ease their concerns. Some employers have increased their mental health resources for workers knowing that they could be especially helpful at the current time. Others are offering **financial wellness programs and training** to help supply workers with the wherewithal to survive this crisis. Regardless of which programs you offer, make sure they are widely communicated so employees are aware of these resources.

Meanwhile, other employers are holding **town hall meetings or otherwise increasing communication** to reduce concerns about the economic situation. Especially if you are implementing cost-cutting measures or reducing employee headcount, you should know that your workers are no doubt concerned about their own future and the future of the organization. By opening a direct line of communication with your employees and introducing an element of transparency, you will build trust and loyalty with them that will last well beyond the current economic downturn.

trust and loyalty with them that will last well beyond the current economic downturn.

Conclusion

We will continue to monitor the situation and provide updates as necessary, so make sure that you are subscribed to Fisher Phillips' Insights to get the most up-to-date information direct to your inbox. If you have further questions, contact your Fisher Phillips attorney or the authors of this Insight.

Related People

Richard R. Meneghello
Chief Content Officer
503.205.8044
Email

Danielle H. Moore
Executive Partner, Management Committee
858.597.9600
Email

Service Focus

Counseling and Advice

Wage and Hour