

Labour Cost Reduction and the Well-Being of Employees:

Achieving Short-Term Cost Savings While Protecting Culture and Trust

Kelsey Matthews

What is the issue?

During periods of financial difficulty organizations frequently resort to cutting labour costs. Although this approach can achieve short-term financial savings, it may also detrimentally affect employee attitudes and behaviours.

Why is it important?

Adverse effects on employee attitudes and behaviours from labour cost reductions can lead to management control issues and decreased morale and trust. These problems may have lasting negative consequences on both organizational culture and long-term profitability.

What can be done?

To effectively implement reductions in labour costs, every managerial decision should be grounded in principles that foster trust, authenticity, and adaptability. By employing specific implementation strategies rooted in these values, organizations can mitigate the adverse effects when cost-reduction measures become necessary.



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Introduction

During financial hardship, organizations often face intense pressure to cut costs and stabilize profitability. Economic downturns, like those of the 2020–2022 COVID-19 pandemic or the 2008–2009 financial crisis, have serious impacts on multiple industries at once and shut down sectors like travel, hospitality, and retail. Similarly, industry- or organization-specific challenges, such as the early 2000s dot-com bust or BlackBerry's decline in the 2010s, can push companies into difficult financial positions. Regardless of the cause, these downturns often mean that managers are forced to make difficult cost-reduction decisions to boost efficiency and profitability within their organizations. One of the primary targets for reduction is labour costs, which are typically a major expense.

Improving short-term profitability and stabilizing financial health of the organization are key goals when reducing labour costs, but management must also weigh the long-term outcomes of these decisions. Cutting labour expenses can negatively affect employee attitudes and behaviours, which can lead to issues with control, engagement, and morale, and these can have significant long-term consequences for the organization.

Indeed, media often highlight the backlash that organizations face after reducing labour costs, and academic research confirms these negative outcomes. However, many organizations have successfully navigated labour cost reductions. By adhering to key principles and implementing employee-centred strategies, organizations can minimize negative impacts, ensure employees feel valued and respected, and uphold a positive organizational culture.

This article outlines the various labour cost reduction practices accessible to managers, as well as the common challenges that may ensue following such reductions. Additionally, it includes strategic approaches that managers can consider when confronted with these difficult decisions.

Labour Cost Reduction Practices

What Are the Options?

There are three common practices that management can choose from when implementing a large-scale reduction of labour costs: employee downsizing, furloughs, or pay cuts.¹ Each of these practices can be implemented involuntarily or voluntarily.

1 This discussion and the definition of these practices are adapted from Matthews, K. (2021). Consequences of labor cost reduction practices: A structured literature review. *Accounting Perspectives*, 20(4): 687–718. <https://doi.org/10.1111/1911-3838.12276>

Employee Downsizing

Management can reduce its organization's workforce through employee downsizing, also known as layoffs. When employees are downsized, it means terminating their positions with the organization. Employee downsizing can be involuntary, whereby management decides which employees will be terminated. Alternatively, voluntary downsizing occurs when management seeks out employees who agree to resign voluntarily.

Furloughs

During a furlough, employees' working hours are decreased, along with a corresponding reduction in their pay. Furloughs can be structured in various ways. For instance, they may take the form of single-day events occurring intermittently, such as instituting four-day work weeks or requiring employees to take a specified number of unpaid days off over a set period. Alternatively, furloughs can extend over longer durations, such as a month or more. Involuntary furloughs imply that management notifies employees about how their hours and pay will be reduced. Conversely, under a voluntary furlough, management provides employees with the option to choose whether to accept the reduction in hours and pay or maintain their current levels. If, however, there are not enough volunteers, some employees will need to be laid off in order to achieve the cost reduction targets.

Pay Cuts

Pay cuts involve reducing employees' compensation through a decrease in their salary or hourly wage. Notably, this reduction in pay is not accompanied by a corresponding decrease in work hours. During an involuntary pay cut, management mandates the pay reduction, presenting employees with a choice: accept the reduced compensation or leave the organization. Conversely, with a voluntary pay cut, employees are given the option to accept a reduction in their pay or maintain their current pay level. If, however, there are not enough volunteers, some employees will need to be laid off in order to achieve the cost reduction targets.

Each of the above three practices has been implemented by a range of organizations. Figure 1 highlights examples of the organizations that have implemented these labour cost reduction practices during the two most recent economy-wide downturns.

FIGURE 1 Organizations that Implemented Labour Cost Reduction Practices

Labour Cost Reduction Practices		Organizations that Implemented Practices	
		2008–2009 Recession	COVID-19 Pandemic
Employee downsizing	Involuntary	General Motors Laid off 23,000 employees, reducing its workforce by more than one-third.	Leon’s Closed 35 percent of stores and laid off half of their workforce (2,900 employees).
	Voluntary	IBM Asked employees to volunteer to be laid off during global job cuts.	WestJet Over 6,000 employees accepted early retirement or voluntary resignation.
Furloughs	Involuntary	State of California 189,000 executive branch employees were furloughed for three days.	Disney World 100,000 employees, half of the workforce, were furloughed amid park closures.
	Voluntary	Nokia Corp Employees were offered unpaid leave options in order to avoid widespread layoffs.	Grant Thornton LLP Employees were offered a furlough to reduce their hours and pay by up to 40 percent.
Pay cuts	Involuntary	Wynn Resorts Salaried workers earning \$150,000 or more received a 15 percent pay cut, and those making less took a 10 percent reduction.	BuzzFeed Employees making less than \$65,000 were paid 5 percent less and employees making \$65,000 to \$90,000 took a 7 percent pay cut.
	Voluntary	Brandeis University Asked professors and instructors to give up one percent of their pay.	SNC-Lavalin Asked employees to accept a pay cut of 10 or 20 percent for three months.

Consequences of Labour Cost Reduction

Employee-Level Outcomes

An extensive body of research finds that when an organization reduces labour costs, the process can result in adverse employee attitudes and behaviours.² This change in behaviour can be understood through the lens of psychological contract theory.

² For a review of the literature, see Matthews (2021), Consequences of labor cost reduction practices.

In psychological contract theory, it is understood that employees perceive the mutual obligations that exist between them and their employers as a “psychological contract.”³ Employees expect their organizations to fulfill the obligations of this contract (regular pay and hours, training, safety on the job), and failure to do so results in a breach or violation of the contract. In general, employees expect their organizations to offer a stable, secure, and positive work environment. However, measures such as downsizing, furloughs, and pay cuts generate significant uncertainty and doubt. Consequently, employees often perceive management’s decision to reduce labour costs as a breach of their psychological contract with the organization.

Breaches of employees’ psychological contracts can have significant effects on their attitudes and behaviours at work. Employees may experience diminished trust in management, coupled with feelings of anger and frustration. It is also common for employees to face increased stress and feelings of unfairness. These negative attitudes frequently lead to harmful behaviours, such as reduced effort and performance, increased absenteeism, and more frequent turnover.⁴

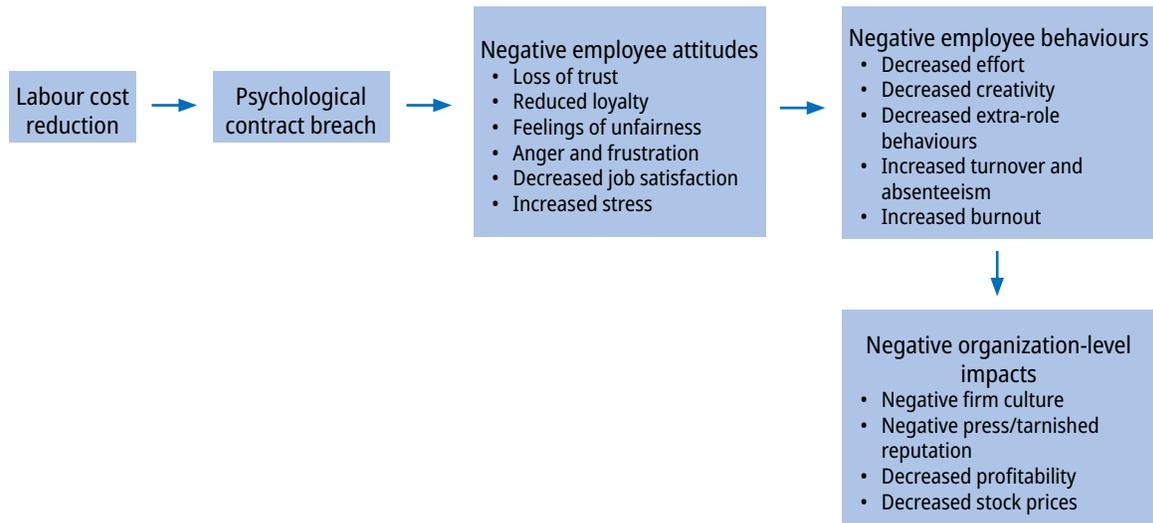
Organization-Level Outcomes

Widespread negative employee attitudes and behaviours resulting from labour cost reductions have direct implications for the organization as a whole. These responses can severely damage company culture, potentially leading to unproductive, or even unethical, future conduct among employees. Although labour cost reductions focus on the improvement of short-term profitability, such reductions can undermine long-term profitability by eliciting these negative responses from remaining employees. Another concern is the potential for damage to the organization’s external reputation if disgruntled employees speak to the press, which can adversely affect relationships with customers, prospective employees, and investors. Ultimately, a decrease in the organization’s performance and negative media coverage can lead to a decline in the organization’s stock price.

Figure 2 summarizes common employee and organizational outcomes following labour cost reduction.

3 Rousseau, D. M. (1995). *Psychological contracts in organizations: Understanding written and unwritten agreements*. Sage.

4 Zhao, H., et al. (2007). The impact of psychological contract breach on work-related outcomes: A meta-analysis. *Personnel Psychology*, 60(3), 647–680. <https://doi.org/10.1111/j.1744-6570.2007.00087.x>

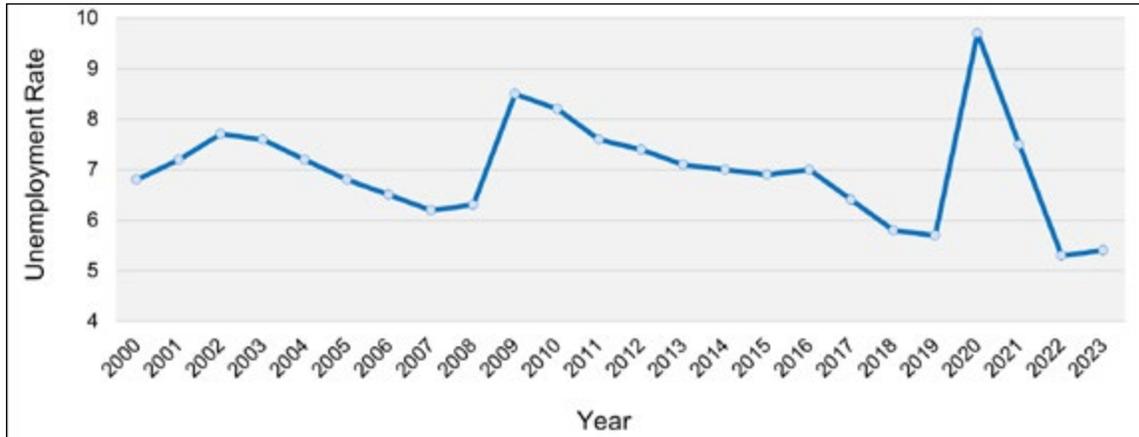
FIGURE 2 Common Outcomes of Labour Cost Reduction

Societal-Level Outcomes

The societal-level outcomes of labour cuts, particularly during periods of widespread economic downturn, are multifaceted and far-reaching. During these periods, when organizations across multiple industries resort to downsizing, the unemployment rate inevitably rises. As illustrated in Figure 3, which charts the unemployment rate in Canada since the year 2000, there are notable peaks in 2009 during the recession and in 2020 amidst the COVID-19 pandemic. This surge in unemployment exacerbated economic challenges by reducing consumer spending and increasing the burden on social welfare systems.

In addition to the unemployment ramifications, there are profound social consequences. Individuals who fall victim to downsizing, furloughs, and pay cuts often face significant uncertainty and loss, which can lead to mental health issues such as stress, anxiety, and depression. These mental health struggles not only affect the individuals but also their families and communities, adding strain to public health resources.

Overall, reducing labour costs, while often necessary, can have extensive impacts on society. These outcomes highlight the need for organizations to carefully consider the broader implications of their downsizing decisions.

FIGURE 3 Canadian Unemployment Rates⁵

Implementation of Labour Cost Reduction

While there are potentially negative consequences associated with reducing labour costs, it is important to recognize that there are several implementation choices that management can choose when faced with making decisions throughout the cost reduction process. What if implementation choices could mitigate or even eliminate employees' perceptions of psychological contract breaches? This, in turn, could minimize the negative attitudes and behaviours that employees often experience.

For deeper insights into the most effective ways to implement labour cost reduction for this article, I consulted with Jim Matthews, an Independent Business Advisor affiliated with Oliver Wight Americas, Inc. Matthews has a vast amount of experience in assisting companies in understanding their markets, operationalizing strategy, and achieving business and financial objectives. His professional background includes over 25 years in general management, growing businesses through mergers and acquisitions, as well as organic expansion in various public companies. He has spent the past 12 years consulting in Integrated Business Planning (advanced sales and operations planning) and associated leadership development and executive coaching. Prior to entering consulting and despite many successful growth strategies, Matthews also found it necessary at times to implement labour cost reduction actions. What follows are his valuable perspectives (quoted here with his permission) that highlight the principles and values organizations can consider to minimize negative impacts when cost reduction options must be implemented.

5 Statistics Canada. (2024). Table 14-10-0023-01. Labour force characteristics by industry, annual (x 1,000). <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410002301>

Guiding Principles

To effectively guide organizations in implementing labour cost reduction, Matthews stresses three key principles that should be at the forefront of each decision made by management:

1. Build and maintain trust
2. Be genuine and authentic
3. Ensure flexibility and adaptability

Figure 4 highlights Matthews' explanation for each of these three principles.

FIGURE 4 Matthews' Three Principles

Build and maintain trust	Be genuine and authentic	Ensure flexibility and adaptability
<p>Building and maintaining trust up, down, and across an organization is foundational to its long-term success. This principle holds true in any period of significant change, including periods of rapid growth and success. However, it is especially crucial when workforce reductions and other difficult organizational decisions are required. Ideally, cultivating organizational trust and associated values should already be embedded in the culture and leadership priorities before such difficult times emerge.</p>	<p>Authenticity from the leadership team will often flow naturally if these principles are ingrained in the company culture and executive priorities to date. Even then, and especially if there are existing trust gaps, affected employees will sense whether they are receiving honest and timely communication, whether they are being treated as fairly as possible, and whether they are valued beyond being an expense line on the P&L. Often overlooked, the remaining employees will also form perceptions of management's authenticity, which will influence their commitment to the organization.</p>	<p>Even with the most thorough preparation, there will be some surprises during any organizational change. In fact, especially in major restructurings, the very nature of listening and supporting leaders and employees both before and during the event will mean that a reasonable level of flexibility and adaptability will be required. Whether this is input on who is being terminated, healthy challenges to certain targets, or insights into added support that they may need, employees will quickly assess whether the process and their involvement is valued.</p>

The three guiding principles serve as the foundation for the five strategies for successful implementation, as discussed in the following section. Each strategy strongly empha-

sizes the human aspect of labour cost reduction. Figure 5 provides an overview of these strategies.

FIGURE 5 Overview of the Five Strategies

Strategy		
Strategy 1	Involvement of Organizational Levels	Consider the timing and level of engagement with each organizational level
Strategy 2	Effective Communication	Communicate transparently, honestly, and empathetically
Strategy 3	Coaching and Training	Train employees on how to effectively communicate cost reduction news
Strategy 4	Outlets for Feedback and Questions	Offer opportunities for two-way communication
Strategy 5	Comprehensive Employee Support	Provide continuous support throughout the process

Five Strategies for Successful Implementation

STRATEGY 1 – Involvement of Organizational Levels

Consider the timing and level of engagement with each organizational level

The role of the CEO is pivotal in navigating significant organizational changes. The CEO must set the tone for the implementation of labour cost reduction and serve as the chief communicator of key messages to the entire organization. It is crucial, however, not to underestimate the importance of timing in these communications and the involvement of management members across various levels of the organization.

The CEO must first engage their top management team, including C-level executives and vice presidents. Matthews emphasizes the importance of conducting one-on-one conversations with these key leaders. Success during difficult periods, such as labour cost reductions, hinges on the unwavering commitment of top management to the task at hand and to the longer-term success of the organization. The CEO should emphasize the potential difficulties ahead and encourage the executive team to trust and support the outlined process. It is crucial for top management to be able to answer the CEO's questions such as, "Are you committed to our future, planning to stay, and committed to me?"

A renewed sense of commitment among the top management team also enhances their ability to communicate authentically with middle and first-line managers. It is imperative

that they embody the commitment they seek to inspire, as they cannot effectively advocate for support of this challenging process without being fully committed themselves.

Middle and first-line managers also play a crucial role in this process when they are tasked with communicating what is happening to their teams. It is often their duty to deliver personalized messages to the employees who are directly affected, explaining layoffs or the implications of a furlough or pay cut. Throughout this process, it is imperative that their messaging aligns with that of the CEO and top management. This presents an opportunity for these managers to build trust with their teams by ensuring consistency between their words and actions and those of the organization's leaders.

Top management must carefully consider the extent to which they involve first-line managers and employees in labour cost reduction decisions. Evidence suggests that involving employees in organizational change helps foster a sense of control, which subsequently leads to increased acceptance of the change. However, it is imperative that any involvement prior to final decision-making is both genuine and meaningful. For involvement to be effective, employees must feel empowered to influence at least some aspects of the process and outcomes. Employees will quickly recognize if their involvement is merely superficial, such as participating in a focus group that lacks the authority to genuinely influence decisions. This ties back to one of Matthews' key principles: be genuine and authentic.

One approach to involving employees in labour cost reduction decisions is to implement a voluntary practice. Rather than mandating layoffs, furloughs, or pay cuts, management can ask for volunteers. Preliminary research on labour cost reduction indicates that, when executed properly, offering employees a choice can foster feelings of gratitude and appreciation towards management. A notable example of a company successfully involving employees in the decisions is Gravity Payments, a credit card processing

Southwest Airlines' Voluntary Programs

In an effort to avoid involuntary furloughs or layoffs, Southwest Airlines introduced two voluntary programs when demand for travel decreased in 2020 during the COVID-19 pandemic.

The Voluntary Separation Program provided generous departure packages for employees who chose to permanently leave the company. Meanwhile, the Voluntary Time Off Program offered employees the opportunity to take extended time off, while still receiving a portion of their salary.

Approximately 15,000 employees, representing 25 percent of Southwest's workforce, participated in one of these voluntary programs. This participation resulted in a reduction of labour expenses by approximately \$565 million. The high rate of employee participation allowed Southwest to avoid involuntary furloughs and layoffs in 2020.

Source: Southwest Airlines. (2020). *People separation program overview*. <https://viewfromthewing.com/wp-content/uploads/2020/06/200601PeopleSeparationProgramOverviewv5.pdf>

and financial services company.⁶ In 2020, the CEO engaged the organization's 200 employees in seeking ideas on how to reduce costs. Organization-wide Zoom meetings and smaller 10-person meetings were held to brainstorm strategies for navigating the economic challenges posed by the COVID-19 pandemic. Collectively, Gravity Payments decided to implement voluntary pay cuts, allowing each employee to determine how much of a pay cut they could personally afford.

Insights from Jim Matthews

One example of very open and transparent involvement in the restructuring process that I experienced was during a painful period for the electronics industry where there would be no way to keep all of the existing plants operating. Often the analysis for plant closures is completed in full secrecy by a corporate team who then delivers the bad news to affected plants. Instead, we opted to take the General Manager and Head of Finance of "in scope plants" into confidence and have them fully participate in the analysis and subsequent recommendations. Although this took longer and risked confidentiality breaches or even certain business risks, the quality of our analysis and potential alternatives were better developed, trust and respect were maintained, and even if the decision went against the wishes of the plant leaders (it obviously often did), the buy-in and support for the decisions were much better. As a measure of business value, that is almost impossible to measure. We even had circumstances where employees worked overtime on their last shifts to meet customer commitments, with one employee stating, "It's about professional pride, and the respect you showed us, allowed me to keep mine."

STRATEGY 2 – Effective Communication

Communicate transparently, honestly, and empathetically

Building trust and demonstrating authenticity hinge on effective communication, which is vital at every stage of the cost reduction process – from the initial announcement to communicating with individual employees to the post-cost reduction phase. Here are three key considerations to ensure that communication remains effective throughout the process.

Clarity and transparency

All communications should be clear, concise, and transparent to every degree possible. Employees want to understand the rationale behind the cost reduction measures. It is imperative to communicate this transparently, offering explanations that rely on comprehensive and accurate information. Research on procedural justice indicates that providing explanations for unfavourable outcomes can mitigate adverse reactions and

6 Schlosser, K. (2020). Gravity Payments employees volunteer to take pay cut as revenue drops 50% during COVID-19 crisis. *Geekwire*. <https://www.geekwire.com/2020/gravity-payments-employees-volunteer-take-pay-cut-company-sees-revenue-dive-50-crisis/>

enhance the perception of fairness. Consistency in conveying the reasons for these measures is essential, and this responsibility falls to all levels of leadership, from the CEO to first-line managers. If management fails to be forthright and transparent about the process, employees are likely to create their own theories. This can lead to the spread of rumours, which are often worse than the truth.

Empathy and sensitivity

Regardless of the communication plans in place or the framework for implementation, it is imperative to keep people at the forefront of decisions. Management's displays of empathy can be very supportive during difficult times. To help achieve this understanding, management should put themselves in their employees' shoes: What emotions might they be experiencing? What are the prevailing attitudes throughout the workforce? Engaging in this reflective exercise can help ensure that what management is saying to the employees acknowledges the validity of their feelings and offers them a degree of support and comfort.

Timely follow-up

Uncertainty is pervasive during periods of labour cost reduction. Therefore, it is imperative for top management to seize every opportunity to provide relevant information, thereby alleviating stress and concerns among employees. It is crucial to reassure staff that a step-by-step plan is in place that will guide the process and explain clearly what they can expect in the forthcoming weeks.

Further, it is beneficial to let employees know when the labour cost reduction is complete. Matthews stresses the importance of this communication: "It is a time of high stress. To alleviate employees' fears that they could be the next to be laid off, the CEO should promptly inform the workforce, through a company-wide memo or town hall meeting, once the restructuring period is complete." However, there is an important distinction to keep in mind when doing so: avoid making promises that cannot be kept.

In fact, throughout the process, caution should be exercised so that truths are not exaggerated and overpromises are not made in an attempt to alleviate employees' fears. Employees are perceptive and can recognize such actions, which will hinder trust-building and diminish authenticity. As an example, a past client once confided in Matthews that they told nervous employees, "Layoffs will never happen again." While such a message may seem reassuring, it contains a promise that cannot be made with any certainty. Instead, management should offer employees honest and concrete information about the path forward. Team and individual meetings can be held to foster awareness and understanding about what the organization and the employees are going through.

✓ Who did it right?

Marriott International, Inc.

During the COVID-19 pandemic, Marriott furloughed thousands of employees. Marriott's CEO, Arne Sorenson, exemplified transparent and empathetic communication during this challenging period by addressing employees through a candid video message. In this heartfelt address, Sorenson openly discussed the financial difficulties confronting Marriott and the difficult decisions that were required. He expressed gratitude for employees' dedication during tough times. Sorenson also acknowledged the pain brought about by the furloughs and emphasized the company's commitment to supporting impacted employees. By being transparent about the company's situation while showing genuine empathy, Sorenson's message helped foster trust and understanding among employees during a period of uncertainty. This approach illustrates how strong communication can help maintain morale and preserve the company's culture during labour cost reduction.

Source: Johnson, J. (2020). Marriott CEO praised for 'Lesson' in Leadership. *Newser*. <https://www.newser.com/story/288531/marriott-ceo-praised-for-lesson-in-leadership.html>

✗ Who did it wrong?

Microsoft Corporation

In 2014, the devices unit of Microsoft Corporation announced significant layoffs. Unfortunately, the communication of this news was neither transparent nor direct. Instead, it was delivered through a long, convoluted corporate strategy memo. The critical information – that 12,500 factory and professional employees would be laid off over the next year – was buried in the 11th paragraph, approximately 75 percent of the way through the document. This method of communication demonstrated a lack of sensitivity and empathy towards the affected employees, as it minimized how the employees would react and prioritized complex and distracting jargon over clear and compassionate messaging.

Source: Roose, K. (2014). Microsoft just laid off thousands of employees with a hilariously bad memo. *Intelligencer*. <https://nymag.com/intelligencer/2014/07/microsoft-lays-off-thousands-with-bad-memo.html>

STRATEGY 3 – Coaching and Training

Train employees on how to effectively communicate cost reduction news

The first two strategies place significant emphasis on the messaging shared throughout the organization by various levels of management. The third strategy places emphasis on providing coaching and training to management teams. Prior to beginning a new task at work, employees receive coaching and training. This same principle should be applied to labour cost reduction initiatives when management is tasked with getting out the message. Most members of management are likely not experts in this domain. Therefore, it is crucial to train and coach them on how to effectively engage in difficult

conversations with their team members. This training is essential at all levels and should be available throughout the cost reduction process.

First-line managers, in particular, will be responsible for delivering bad news to affected employees, a role many may be encountering for the first time. Consequently, these managers must be trained on how to deliver messages that are transparent, honest, and authentic. One effective training tool is the creation of a standardized script that guides the conversation and that can be provided to ensure consistency in the messaging.

Furthermore, there is the challenge of communicating with team members who remain employed after the cost reduction is complete. These individuals may experience a range of emotions, including fear and anger. Training can equip managers with strategies to effectively communicate with these individuals and rebuild trust.

Insights from Jim Matthews

Although the planning and implementation of a restructuring event places many demands on the executive team's time and attention, the need to invest in and prepare middle and first-line managers represents a critical area that is often overlooked. I had the good fortune early in my career of receiving extensive training and coaching in areas such as giving and receiving feedback, managing performance, time management, and delegating effectively. While these were invaluable, I considered it equally important that during difficult times we received training such as managing through difficult times, exiting employees respectfully and within legal and moral guidelines, and even how to engage with and communicate with remaining employees who may be uncertain on whether they want to stay with the company. Top performing organizations that value employees are consistently looking for ways to improve the quality, development, and engagement of their people.

STRATEGY 4 – Outlets for Feedback and Questions

Offer opportunities for two-way communication

While it is crucial to effectively communicate labour cost reductions processes to employees, it is equally imperative to provide them with opportunities to respond. Management has a responsibility to ensure that there are channels available for employees to offer feedback, express concerns, and ask questions. Employees should be able to connect directly with their manager, which underscores the importance of equipping first-line managers with the skills to answer questions, alleviate concerns, and provide emotional support. Implementing an open-door policy can be a beneficial practice, ensuring that employees are aware that management is available to listen during this challenging time. This approach fosters an environment of transparency and support, which is essential for maintaining morale and trust within the organization.

This period of transition also presents a valuable opportunity for top management to make themselves accessible to employees. Organizing a company-wide call with a ques-

tion-and-answer segment can facilitate open communication. Additionally, top management can “walk the floor” to initiate spontaneous conversations with employees as a way to gauge their sentiments. Overall, it is crucial for management to be visible and approachable. A simple inquiry such as “How are you feeling?” can demonstrate genuine concern for employees and foster a sense of trust.

Importantly, this availability must extend both during and after the implementation phase. For instance, employees may have inquiries about changes in their workload or hours during a furlough. Similarly, following downsizing, remaining employees may have numerous questions concerning the future of the organization. By maintaining open lines of communication and addressing concerns promptly, management can help alleviate uncertainty and build confidence among those employees.

✓ Who did it right?

Airbnb, Inc.

In 2020, Airbnb announced the layoff of 25 percent of its workforce. This difficult decision was communicated directly by CEO Brian Chesky. He delivered the news with great empathy, mindful of the emotional impact on the employees. Chesky stated, “For a company like us whose mission is centered on belonging, this is incredibly difficult to confront, and it will be even harder for those who have to leave Airbnb. I am going to share as many details as I can on how I arrived at this decision, what we are doing for those leaving, and what will happen next.”

The announcement outlined a set of guiding principles, including “Optimize 1:1 communication for those impacted.” In addition, Chesky conducted weekly Q&A sessions. Before the formal announcement of the layoffs, he openly discussed the grave situation the organization was facing, allowing employees the opportunity to pose questions about the future, providing a platform for employees to voice their concerns and receive answers. This approach facilitated effective two-way communication during a time of uncertainty.

Source: Airbnb, Inc. (2020). A message from co-founder and CEO Brian Chesky. <https://news.airbnb.com/a-message-from-co-founder-and-ceo-brian-chesky/>

✗ Who did it wrong?

Better.com

In 2021, Better.com laid off 900 employees. These employees were informed that they were laid off in a last-minute group call on Zoom that lasted just three minutes. The Zoom call did not allow for any real-time questions or feedback from affected employees, and it ended abruptly following the delivery of the bad news. Employees were not provided with a platform to learn more information, which left them vulnerable and confused.

Source: Fieldstadt, E., et al. (2021). 900 Better.com employees learn their jobs are being eliminated in a Zoom call. *NBC News*. <https://www.nbcnews.com/business/business-news/900-bettercom-employees-learn-jobs-are-eliminated-zoom-call-rcna7738>

STRATEGY 5 – Comprehensive Employee Support

Provide continuous support throughout the process

Employees require ongoing support during labour cost reduction because such periods generate uncertainty, anxiety, and fear regarding job security and the future. A recent survey by SEEK revealed that two out of three employees found downsizing to be a scary experience. Alarming, 55 percent of respondents reported receiving no support from their organization during these challenging times.⁷ Providing support to employees during such periods demonstrates empathy and respect, which are essential for preserving a positive organizational culture and minimizing perceptions of a contract breach. Additionally, offering support to those who remain employed afterwards is vital for fostering trust and maintaining a sense of stability within the organization.

Management can offer support to employees through various means, including:

Well-being and mental health services

There is a substantial amount of research that supports the relationship between being laid off or being furloughed and mental health issues. Such circumstances can lead to depression, elevated stress and anxiety, and reduced self-esteem. These adverse effects may stem from the loss of income, the stigma associated with being out of work, or the disruption of one's daily routine and identity. To support their employees and mitigate these negative effects on their well-being, organizations can offer employees mental health resources, support groups, and counselling services. It is also important to recognize that downsizing can be highly stressful for those who are not laid off. The emotions they experience, often referred to as "survivors' guilt," should also be addressed by providing these employees with similar supports and resources.

Financial compensation and guidance

A significant portion of the stress associated with losing employment stems from the loss of income. To alleviate this financial burden, organizations can offer generous severance packages or continue to provide benefits for a period after termination. Additionally, offering guidance in the form of financial planning assistance can equip employees with strategies to effectively manage their finances moving forward.

Career development and training programs

For employees who are laid off, it is essential to offer substantial support to assist them in transitioning to new job opportunities. The initiatives listed below can significantly aid affected employees in navigating their career transitions more smoothly:

7 Tobler, H. (2021). *Managing redundancy: What employees want*. SEEK Employer. <https://talent.seek.co.nz/hiring-advice/article/managing-redundancy-what-employees-want>

- Connect with recruiters: Provide contact information for relevant recruiters who can assist individuals in finding new employment.
- Résumé and cover letter support: Offer employees assistance in crafting and refining résumés and cover letters to enhance their chances of securing new positions.
- Alumni support network: Establish an alumni support network to foster connections and provide support among former employees.
- Coordination with workforce development centres: Collaborate with local workforce development centres to offer additional resources and training.
- Outreach to hiring organizations: Reach out to other organizations that may be hiring to facilitate job placements for laid-off employees.

Regular check-ins

Support for employees who remain on the job should not conclude when the labour cost reductions are completed. A significant way to assist remaining employees is by organizing regular check-ins with their manager. These meetings provide an opportunity to discuss expectations, including any changes to their roles or responsibilities moving forward. It is also an excellent occasion to reassure employees of the value of their contributions and to address any questions they may have.

Examples of Effective Support

Airbnb, Inc.

In his 2020 announcement regarding layoffs at Airbnb, CEO Brian Chesky detailed the support measures that would be provided to affected employees. These measures included:

- Severance: The severance package provided to employees included a minimum of 14 weeks of pay, with additional compensation based on tenure.
- Healthcare: Airbnb covered health insurance costs until at least the end of 2020 and provided four months of mental health support.
- Job support: Airbnb provided numerous ways to help employees find their next job. This included launching a public-facing website to help laid off employees find new jobs, offering four months of career services through RiseSmart, and allowing employees to keep their Apple laptops.

For those who were not laid off, a meeting invitation was extended to inform them of any changes to their roles. These individuals were also assembled into teams to discuss the layoffs. Additionally, the CEO hosted a question-and-answer session for all employees.

Source: Airbnb, Inc. (2020). A message from co-founder and CEO Brian Chesky. <https://news.airbnb.com/a-message-from-co-founder-and-ceo-brian-chesky/>

Conclusion

When navigating the complexities of financial downturns, organizations often find it necessary to reduce labour costs. While such measures may be needed to stabilize finances and enhance short-term profitability, the decisions made and the processes undertaken during these difficult periods carry significant implications for both employees and the broader organization. Employees may experience breaches to their psychological contracts and respond with negative attitudes and behaviours, potentially undermining long-term organizational performance and reputation.

However, as highlighted through insights from Jim Matthews, by adhering to the three guiding principles of building trust, being genuine, and maintaining flexibility, organizations can navigate these challenging times more effectively. And by implementing five key strategies, organizations can consider how and when to involve each organizational level, ensure effective communication, provide coaching and training, provide outlets for feedback and questions, and offer comprehensive support to employees. Together, these guiding principles and strategies can help maintain a positive organizational culture even amidst cost reductions.

Ultimately, while the decision to reduce labour costs is fraught with challenges, a thoughtful approach, which places people at the forefront of every decision, can minimize the negative consequences and promote both organizational resilience and employee engagement and morale.