How To Combat The Pandemic: Furloughs Or Layoffs

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Businesses that are seeing significant revenue losses due to the coronavirus pandemic are weighing some stark options: furloughs, reductions in hours and pay cuts, or layoffs. Furloughs often are the best option for those that can afford them. But for some, layoffs will be unavoidable. A furlough is a mandatory, temporary, unpaid leave. A layoff is a full separation from the company.

Furloughs enable companies to reduce staffing costs while sidestepping layoffs and are especially helpful during times like these when many industries are at a near stand-still. Furloughed employees either work a schedule of reduced hours or, as is more common now, are put on leaves that can last as long as the company needs. Most furloughed employees receive no pay from the company, but companies generally continue covering health insurance. Employees can draw unemployment benefits during their furlough and can also work for other companies. The major benefit of furloughs to employees is that they have a job to return to, while companies do not have to go through the painful and expensive process of rehiring and training new employees and losing talent that they have spent years training.

Is it the best decision for your company? Furloughs are best used as a worker-retention strategy in the face of temporary financial difficulties (like recessions and pandemics). However, if your company is dealing with permanent changes, such as decreased demand due to advancing technology, or new strategies that require employees with entirely different skills, a furlough will only delay the inevitable layoff.

Managers need to carefully consider the types of employees that will receive furloughs. Part-time, temporary, or contract employees may not be eligible for unemployment benefits while on furlough, and the administrative costs of furloughing them may outweigh any potential savings. Meanwhile, the risk of losing star talent or the cost of having employees with specialized knowledge stop working may also outweigh the savings. When Honeywell implemented furloughs during the Great Recession, it exempted engineers on high-priority new product development projects and customer-facing employees.

Furloughs come with administrative costs that vary depending on the local laws. Some governments require that the company contribute to a worker’s pay. Most companies will pay health insurance and this should be a best practice especially in a pandemic. However, insurance plans place limits on how long furloughs can last. Meanwhile, different countries may have different definitions of what constitutes work and may require companies to confiscate work laptops and cell phones.

Managers should evaluate the perceived fairness of the furlough. Layoffs often target underperforming employees, but furloughs can affect a greater proportion of the workforce, which may strike some employees as unfair. To alleviate this, managers should consider rotating departments or divisions so employees are not forgoing their paychecks for several weeks at a time, or imposing an overall reduction of hours across the board, or using other cost-savings measures such as salary cuts for senior leaders.

Finally, employers doing furloughs should provide as much advance notice as possible. Research has shown that employees are most likely to trust their managers when they exercise information fairness. This involves communicating about what you intend to do, why you have chosen that strategy, and how employees will be affected. After the general communication, managers should meet with their employees (Zoom or a phone call can work) to give employees a chance to raise concerns and questions. Managers should also take care to collect the best contact information for employees, especially if the furlough means those employees will no longer have access to email.

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