

HR Insights

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5 Small Businesses Tips for Preparing for a Recession

There's growing anxiety that the U.S. economy is heading into a recession. While a recession impacts organizations of all sizes, small businesses often have limited resources and face a unique set of challenges. As a result, small businesses often must make difficult financial decisions to avoid issues such as insolvency or bankruptcy when a recession hits. That's why it's critical for small businesses to now consider how best to prepare for a potential recession.

This article outlines several tips to help small businesses prepare for and minimize the impact of a recession on their organizations.

1. Reevaluate Compensation Strategies

Many organizations increased salaries, awarded bonuses and expanded employee benefits in response to the recent labor shortages. However, small businesses may need to reevaluate their spending on employee compensation. Finding ways to reduce or eliminate unnecessary costs while still retaining employees will be vital as small businesses prepare for a possible recession. Cost-reducing measures may include forgoing pay raises, reducing bonuses and reevaluating employee compensation and benefits strategies. These savings can help organizations establish a cash reserve to weather financial storms.

2. Prioritize Employee Retention

Prioritizing employee retention leading up to a recession can help small businesses save money since the costs of recruiting and training new employees are extremely high. One strategy employers can use to improve retention is to strengthen employee engagement.

According to industry experts, highly engaged employees are more likely to accept negative work changes that may occur during a recession while remaining loyal. During periods of economic uncertainty, employees are likely to feel stressed and concerned about their futures, their employers' long-term viability and changes to their workloads.

Small businesses can strengthen engagement by emphasizing workplace culture, strengthening communication, providing flexibility, boosting workplace efficiency and encouraging employee feedback. Providing employees with the benefits they desire and value is another effective way to improve engagement. Although small businesses' budgets may be limited during an economic downturn, investing in tools and software can help organizations track and find new ways to strengthen employee engagement. Organizations can also consider cost-effective solutions, such as implementing recognition and reward programs.

3. Assess Organizational Talent

Ensuring organizations have the right staff in place is vital during a recession. An aspect of this is to identify and retain key employees, those who have a tangible impact on their organizations' success and are difficult to replace. These employees can help small employers drive business, maintain focus and reach their goals even during periods of financial difficulty or uncertainty. If employers determine employees are not meeting expectations or organizational needs, they need to find cost-effective and productive alternatives. In some cases, outsourcing or relying on contractor labor can help organizations run more efficiently. Additionally, layoffs may be unavoidable during a recession. By identifying and evaluating their talent, small businesses can be prepared if they are forced to downsize.

4. Establish Communication Channels

Establishing effective employee communication channels is essential when preparing for a recession. The possibility of a recession can bring uncertainty, and employees will likely be concerned about their careers and the long-term success of their employer. Small businesses need to establish and maintain strong communication with employees leading up to and throughout a recession. They must find ways to keep employees informed without fostering their worries. Creating transparent and authentic workplace cultures can help organizations limit recession-related ramifications. Employers can do this by providing employees with honest, accurate and timely information.

How employers communicate with employees is just as important as the information they communicate. To maintain strong employee communications during a recession, small businesses must ensure employees receive their communications. Conducting an internal communication audit allows organizations to assess how their various communication channels are performing. This can help employers identify effective and engaging channels—such as emails, newsletters, surveys, videos and video conferences—so they'll be prepared to relay timely and essential information if a recession hits.

5. Automate Internal Processes

The more efficient organizations are, the more resilient they will likely be during a recession. This is especially important for small businesses. By optimizing their

resources and automating where possible, small businesses can stay one step ahead. Automation simplifies operations by automatically completing tasks that employees would have to do manually. Eliminating manual tasks allows employees to focus on more important work that can directly impact an organization financially, which can be critical to a small business's success during a recession. Adopting and implementing new technologies also helps employers to operate more efficiently, lower costs and reduce risk by performing time-consuming and error-prone tasks faster and more accurately than employees.

Organizations can consider automating the following processes and operations to bolster efficiency:

- Recruitment
- Onboarding processes
- Payroll
- Employee analytics
- Sales
- Marketing
- Billing and collections

Summary

A recession can have serious impacts on small businesses. Fortunately, by properly preparing for a recession and developing preventive strategies, small businesses can be better positioned to minimize the financial hardships of an economic downturn.

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