

# **“Economic Downturn Response Strategies: Early Warning and Layoff Aversion”**

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## What is layoff aversion?

**Layoff aversion is working with employers to avert or minimize layoffs by assisting them in accessing funding, services and other appropriate resources through public agencies which affect business operations. Examples may include:**

- Incumbent Worker Training, such as customized training or skills upgrade training**
- Restructuring, such as selling of non-core operations, administrative overhauls, or improving internal work processes**
- Employee Stock Option Purchase**
- Shared Work Program**



## **NELP's position on Layoff Aversion**

- **Rapid response is typically viewed as reactive but should have proactive approach**
- **Rapid Response should include a strong layoff aversion strategy**
- **What are states currently doing?**
- **What should the role of DOL be?**
  - **Conferences and training opportunities should be offered more frequently and made more available within the DOL regions to allow greater participation by rapid response providers and stakeholders**
  - **Offer assistance to States through educational materials and e-tools on agency web sites**
  - **Seminars, workshops and on-site consultations by agency staff**



## Recent DOL statements about Rapid Response

- Rapid Response is not event-driven!
- It is a *pro-active approach* to planning for and managing economic transition.
- The image of Rapid Response is changing from the old perception of responding to economic crises, such as plant closings and mass layoffs, to *managing economic transitions through building relationships and sharing information among all stakeholder groups.*



## Recent DOL statement regarding Layoff Aversion

- Layoff aversion is the use of strategies, networks, and tools to help avoid plant closures or business failures while retaining jobs.
- The aim of layoff aversion is to help company make changes so layoffs are reduced or completely avoided, or to find a buyer so that layoffs are averted.
- *The Rapid Response team* is in an ideal position to coordinate aversion strategies using a range of tools and relationships with other programs and organizations.



# 20 CFR Part 652 WIA Final Rules Sec. 665.310

## What rapid response activities are required?

Rapid response activities must include:

- Immediate and on-site contact with employer, representatives of affected workers, and local community, which may include assessment of:
  - ***Potential for averting the layoff*** in consultation with State or local economic development agencies, including private sector economic development entities
- Provision of information and access to unemployment compensation benefits, One-Stop system services, employment and training activities, information on TAA program
- Provision of guidance and/or financial assistance in establishing a labor-management committee voluntarily agreed to by labor and management, or workforce transition committee comprised of representatives of employer, affected workers and local community



## Sec. 665.320

### May other activities be undertaken as part of rapid response?

The State or designated entity may:

1. In conjunction with other appropriate federal, State and local agencies and officials, employer associations, technical councils or other industry business councils and labor organizations:
  - *Identify strategies for aversion of layoffs*
  - In collaboration with appropriate State agency(ies), *collect and analyze information related to economic dislocations including potential closings and layoffs*
2. Assist in devising and overseeing strategies for:
  - *Layoff aversion such as prefeasibility studies* of avoiding a plant closure through an option for a company or group including the workers to purchase plant or company and continue it in operation
  - *Incumbent worker training*
  - *Linkages with economic development activities* at federal, State and local levels, including Federal Department of Commerce programs and available State and local business retention and recruitment activities



## **Rapid response dollars being used to collect and analyze information related to economic dislocations**

- **Pennsylvania has regional networks of state and local stakeholders that provide informal referrals about troubled firms and track indicators of business distress, such as hiring freezes, slow or delayed payment of bills to suppliers or vendors, and lost contracts**
- **Florida draws on economic and labor market projections to identify industries and occupations at state and regional levels that are likely to decline over the long term**
  - **Using this analysis state workforce officials can target services in advance of layoffs**
- **Washington compiles reports on potential layoffs and distributes them regularly in an electronic alert to state and local partners**



## **Rapid response dollars being used for prefeasibility studies**

- **Ohio uses rapid response funds to provide employers and workers financial assistance in securing pre-feasibility study**
- **State contracts with Kent State University's Ohio Employee Ownership Center (OEOC) to explore employee buyouts and/or succession planning**
- **Preliminary study undertaken to determine if it would be worthwhile to proceed to feasibility study**
- **Feasibility study is analysis and evaluation of proposed project to determine if it:**
  - **is technically feasible**
  - **is feasible within the estimated cost**
  - **will be profitable**



## What is employee ownership?

- Employee ownership occurs when corporation is owned in whole or in part by its employees
- Employee-owned corporations often adopt profit sharing where profits of corporation are shared with employees
- Employee ownership is not magic formula for averting shutdowns but:
  - Under right circumstances and given early warning employee ownership can save companies and plants that otherwise would likely face closure
  - Saving jobs expands local labor market and local economy, while saving thousands of dollars by reducing need for unemployment compensation payments and other social services



# What is business ownership succession planning?

- Also known as Legacy Planning, is a written agreement(s) that detail what happens when business owner(s) leave company, become incapacitated, or die
- It details corporate governance issues, how and to whom business ownership will transfer, management decisions, and takes into account tax and estate planning consequences
- Particularly important for closely-held/family businesses as failure to create such a document can lead to businesses downfall



## **Example of rapid response dollars being used for business ownership succession planning**

- **Last year Ohio used rapid response funds to provide 2-year grant to Kent State University's Ohio Employee Ownership Center (OEOC) to build a business ownership succession planning infrastructure**
- **Why? Small and medium-sized businesses are only employers adding jobs in Ohio**
- **Project started with smaller communities in Northeast Ohio and expanded to Southwest Ohio this year**



## **Why incumbent worker training?**

- In 1999 the Secretary of Labor stated in the *Report on the American Workforce* "Workers must enter workforce with strong basic and job-related skills and they must be prepared to learn new skills continuously in their places of employment over the course of their lives."
- 70% of workforce for year 2020 already working – many have recognized that workplace learning should be priority investment for businesses and incumbent workers
- Each year over 3.3 million people are laid off from their jobs with many of these individuals served by federal, State and local career services. At the same time demand to create a better educated, higher skilled labor force for 21st Century continues to rise



## Using rapid response dollars for incumbent worker training

- Use different strategies to finance
- States should finance training using state general revenues, a portion of employer contributions to state unemployment insurance trust fund
- Use WIA state-level funds to support training for firms or consortia of firms
- Ohio requested and US DOL approved a waiver for use of rapid response dollars to do incumbent worker training to help companies that are at risk of closing or downsizing
  - Approximately \$5.7 million dollars of rapid response funds earmarked last year for training of incumbent workers
  - Funds flowed to local WIA areas after Ohio Department of Development and local WIA area negotiated a training plan with employer



# Linkages with economic development activities

**States and local communities should:**

- **Combine workforce and economic development resources at state and local level**
  - **This will allow opportunity to maximize impact of business retention and other layoff aversion services**
  - **Some states, such as Missouri and New Hampshire, have integrated unit responsible for delivering rapid response services to dislocated workers into agency responsible for business retention and economic development services**



## **Trade Adjustment Assistance for Firms (TAA)**

- **Provides technical assistance to manufacturers that have lost employment and sales or production due to increased import competition**
- **EDA administers program via national network of 11 TAA Centers (TAAC)**
- **TAAC aid trade-injured firm at no cost in submitting petition to EDA for certification of eligibility**
- **Once EDA certifies firm as eligible the TAAC helps firm prepare adjustment proposal**
- **Document provides analysis of firm's strengths, weaknesses and opportunities, and its business recovery plan**
- **EDA limits share of technical assistance to certified firm to \$75,000**
- **Examples of technical assistance activities:**
  - **market research**
  - **identification of technology, computer systems and software to meet specific needs of the firm**
  - **completion of quality assurance program (ISO-9000)**

