



Are your diminishing finances spooking your employees? CNN Money sits in as Alternative Board experts help a small business owner.

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When the business is tanking, should you tell the staff?

By Emily Maltby

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FARMINGDALE, N.Y. (CNNMoney.com) -- Gary White has a problem many business owners share these days: His company has taken a financial hit, and he's not sure how honest he should be with his staffers about the situation.

White (not his real name) runs a legal services firm on Long Island. The companies he represents are losing sales, and consequently, so is he. But when White mentioned to his employees that the business was not doing well, he ended up scaring them.

"People started crying. One person gave notice and went to another firm," he said. "I don't like to panic them into resigning prematurely or cause undue concern, but I feel they should know the truth."

White has brought the issue to a meeting of The Alternative Board, a peer advisory group of business owners in the New York metropolitan area. The group's 10 members, each of whom runs a company with \$1 million or more in annual sales, have met monthly for the past several years, under the guidance of a facilitator, to swap advice about business problems.

"Well, do you really think the conditions of the company will cause people to lose their jobs?" asks Dennis Labriola, president of Farmingdale, N.Y.-based Impact, a firm that develops software for police departments.

"Yes," White says, without any hesitation.

"So what do you think you'll achieve by telling them?" Labriola asks.

"I hope they'll increase productivity. Maybe they can expand duties. The legal staff can help with marketing efforts, for instance," White responds. "We need more customers."

White thinks his attorneys are already aware of their productivity, since they bill on time sheets. But he suspects his support staff is less attuned to how they can best allocate their time.

"If you're going to tell them what's going on, you'll also need to tell them what you expect their reaction to be," says John Dugan, a partner in Farmingdale Physical Therapy Associates. "Tell them they need to be sharper and more on top of things. Temper your language and make it a leadership talk."

"How much do I need to reveal, though?" White asks.

"It's important to not frighten them because they will get panicky, but it's also important to keep them out of la-la land," Dugan suggests.

Opening the books

"Bring them up to speed on expenses," says Ken Villani, president of Cottage Pharmacy in Woodbury, N.Y. "I told my employees that we didn't make as much this year. I also told them what the rent costs, what electric costs, and gas costs, etc. Their reaction was 'Oh my God! We had no idea!' In their minds, the money goes into the cash register and then at the end of the week we divvy it out to the employees. They have no sense of what running a business actually costs."

"Yes! I have that same disconnect at my firm - they simply think the company takes care of everything," White says. "We have cakes to celebrate birthdays and things, but they've become so frequent and the attitude is that it's just a covered expense."

"Right - you need to make them aware of things like that," chimes in Owen Mester, president of O'Wayne New York Enterprises, a bakery in Maspeth, N.Y. "Our employees know what the conditions of the business are, and they've become more productive and less wasteful. We're going to come out stronger because of it, which is something we're all looking forward to."

But White will need to lead by example to illustrate the changes he wants his staff to make, warns James Buonfiglio, president of employee benefit broker C&B Consulting Group in Syosset, N.Y.

"We had a conversation with our folks, but talk only goes so far. Leaders need to take action first," Buonfiglio says. "We even said, 'You will have to work harder, and we will too.' We explained that we would temporarily freeze certain corporate expenses, such as employee lunches and sending flowers to employees. Now everyone chips in a few bucks for those things, which make people care more - the purchases become more personal."

White says he'll consider explaining the actual cost of his company's monthly expenses, but he's not sure how much else to divulge.

"I wouldn't give away too much of your financials. Instead, provide more detail about your expectations," recommends Jay Shulman, president of CPA firm JT Shulman & Co. in Carle Place, N.Y. "Lay out the job tasks. Tell them what they need to do to make you happy. Be more defined when you talk about doing better."

"And make sure you show them that you have a plan," suggests Labriola. "When I announced to my staff that no one was going to get a bonus, I also showed them how [that decision] would allow us to stick to our plan. You need to show how you intend on getting through the tough time. Show them how it'll be okay in the end."

By the end of the discussion, White is ready to call his staff together for a talk - but he's concerned it will frighten his top employees, whom he wouldn't ever consider laying off. "Should I pull them aside before the meeting and tell them their jobs are safe?" he asks.

"I think that's a good idea," Dugan says. "Protect the ones you want to keep."

"But make sure everyone attends the meeting," warns Labriola. "You don't want anyone singled out."