Considerate Handling of Layoffs Can Pay Dividends

by Robert Gorin

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As youngsters, nearly everyone learned the Golden Rule: Do unto others as you would have them do unto you. This fundamental precept is as relevant in business as it is in the rest of life. In the turnaround context, it comes into focus most prominently during tough economic times, especially during a restructuring that involves corporate downsizing.

Along the continuum of business difficulties, there often comes a point when labor costs must be addressed, and a key consideration is the timing of implementation. This point can vary dramatically and is influenced by many factors. The size of a company can be a strong influence. During the past five years, the public has become accustomed to reading about massive layoffs in large banks or global manufacturing companies, for instance, where employee headcount reduction is an early and visible sign of cost cutting, meant to reassure both customers and markets. Pink slips are announced in advance and delivered to thousands of people at once.

In smaller companies, whose environments may be heavily influenced by the personalities of senior management or founders, management may be committed to deferring layoffs until they can no longer be avoided. Blue-collar and white-collar businesses typically have different options for reducing costs, and union contracts may come into play as well. Other stakeholders in an organization affect the downsizing strategy as well: quarterly earnings reports for public companies frequently drive the timing of decisions, and lender pressure to take action may prompt reductions in force.

An entrepreneur may well have a different level of social consciousness about his or her company and employees than a private-equity or hedge fund owner. There are no hard and fast rules, though — some will remember the story of the 1995 Malden Mills factory fire in Lawrence, Massachusetts, when CEO and third-generation owner Aaron Feuerstein decided to pay the salaries and benefits of all 3,000 of the company's unemployed workers during the six months it took to rebuild the mill.

No matter the size or type of company, however, layoffs are difficult, even though situations sometimes dictate that staff reductions are needed. The manner and tone of a restructuring can have a dramatic impact on an organization's ongoing operations and long-term success.

Key Elements

Once management has determined that a reduction in its workforce is necessary, another important decision must be made: how will the downsizing be handled? Will employees be treated essentially as costs to be cut, or will the company strive to handle the situation with respect, dignity, and kindness? The first option is likely be easier to implement quickly and may cost less in the short term. But such a "scorched earth" approach often leads to more costs and headaches down the road, including employee defections, poor morale and lower productivity among the remaining staff, legal issues, and a diminution of a company's reputation within the community.
The latter option — call it socially responsible restructuring (SRR) — balances the economic needs of a business with the human side of the equation. Using an SRR approach, a restructuring is presented as part of an integrated, well-thought-out business plan, rather than simply a workforce reduction. SRR is a transparent process that includes all constituencies early and often results in less resistance to change.

With SRR, information is shared in a manner that allows employees to make educated decisions within the boundaries of both their personal and professional lives. Additionally, the restructuring is viewed as being more equitable, because the pain is shared across different levels of the organization, whenever possible. With a wellimplemented SRR, employees will experience sadness and anxiety, but they are much more likely to appreciate the big picture and continue to trust and respect management and the company.

Three critical points for a company to remember when employing SRR are:

- Provide enough information to minimize ambiguity
- Treat employees as responsible adults
- Communicate, communicate, communicate!

It is important to avoid blaming employees for a restructuring. Phrases like "don't work harder, work smarter" put the blame for a company's problems squarely on the shoulders of its employees. It is also important to refrain from using platitudes, condescending language, or superficial slogans. Expressions like "change is your friend," "we'll be leaner and meaner," and "we won't downsize, we'll right-size" insult employees and show a lack of respect and caring for both the workers to be let go and those to be retained. Characterizing the past as one big mistake belittles employees' previous efforts and accomplishments.

Treating employees as though they are immature, as such trite phrases imply, invites them to respond immaturely, playing to what they perceive to be management's low expectations of their intelligence. Staff members respond as they are treated. Treat them with respect and as intelligent adults, and they will react in kind.

Some SRR best practices include:

- Be specific when discussing missteps and be as open and honest as possible. Finger-pointing and assigning blame help no one and provide no tangible benefits. Let people know that times have changed and that the company must do so as well.
- Communicate short- and long-term goals for the company, as well as the scope, timing, and process used to select the employees leaving the firm, and ensure that the selection process criteria are rational and defensible. Shareholders in public companies are another key constituency that must be kept as informed as possible.
- Focus on eliminating positions rather than straight across-the-board cuts whenever possible, and make it clear that the workforce reduction is not the only cost-cutting step being taken by explaining other measures that are being instituted. Consider and plan for the impact the layoffs will have on customers and suppliers.
- Involve workers as much as possible throughout the restructuring process, as they often have creative ideas and are more likely to support a process that they help to create.
- Discuss plans with lenders, who are more likely to work with the company and support efforts if they know about them in advance. Like many people, lenders dislike surprises.

It is also critical that members of senior management not isolate themselves from employees during this difficult time. Management should be visible, available, and approachable, while doing all that they can to soften the blow for targeted employees.

SRR doesn't end once the layoffs have been announced. Whenever possible and depending on the size of the organization, departing employees should be provided with assistance, such as financial planning, counseling, training, and outplacement services.

Headcount reduction alone isn't enough for a company in distress — the company also needs to investigate ways to improve operations and workflow as part of its business plan, and then communicate these plans to their stakeholders. Remember that the "survivors" must be managed as well — keep communications open through two-way, face-to-face sessions and offer support, such as counseling and training. Treat both those staying and those leaving with dignity and respect. Employees will remember how they were treated long after they have forgotten why the reduction occurred in the first place.

Why Bother?

SRR often takes more time to implement in the short run, so why should a company use it? SRR considers a restructuring's effect on all stakeholders, including employees, customers, suppliers, shareholders, management, and the community. Each group benefits from this approach, making SRR not just an application of the Golden

Rule, but also the economically sensible thing to do. If employees understand the strategy and rationale for a reduction, it is easier for them to accept it, commit to the future, and continue to believe in the firm.
Under SRR, employee reduction is part of the plan rather than being the plan, and employees perceive the process as fair and consistent. Employees who have been through a process that treats them as individuals rather than as commodities will feel better about and have more trust in their company. These positive feelings can translate into more loyalty, commitment, and productivity.

At the same time, SRR enhances a company's ability to recruit, retain, and motivate high-performing workers in the future, while also helping the remaining employees deal with feelings of anger and guilt. Those remaining with the company often personalize the termination of their colleagues and friends. One goal of SRR is to return the staff quickly to a more productive state. In the end, a responsible approach demonstrates commitment to the remaining employees, sustains workplace morale and productivity, manages former employees' perceptions of the company, reduces the likelihood of lawsuits, and preserves a firm's reputation in the industry and community.

There is often a temptation simply to select the employees to be cut and make the move quickly, because this approach is perceived to be easier and faster. While the short-term advantages may seem beneficial, they are outweighed by the negative repercussions of such rushed actions. Poorly or hastily executed reductions can lead to lost productivity, low morale, and falling economic performance. If employees don't believe in the strategy, they can't or won't put their best efforts into implementing it.

This leads to a failed effort, including higher costs and inefficient work processes, and ultimately requires more time and money to fix the original problems. Also, employees that the company wants to keep are more likely to leave and take critical information, knowledge, and experience to competitors, requiring management to spend even more time and money hiring and training new staff.

Even if reducing headcount is the only option for a company to survive, applying SRR's essential elements can facilitate the process and allow the company to prosper eventually. Lastly, SRR can reduce rumors and gossip, which suck the life from companies, and help to minimize the risk of lawsuits.

Rarely Easy

The individual, economic, and social costs of restructuring can only be justified if the effort leads to a healthier, more prosperous company. Reductions of staff alone cannot fix a flawed business strategy, poor marketing, or faulty quality. Reductions are seldom simple or easy, and whether a company's management believes that a reduction is significant, it is momentous for every affected individual. SRR begins with a transparent process based on fair and objective criteria, and increases the likelihood that a company will recover and prosper in the future.

Robert Gorin
Senior Director
Getzler Henrich & Associates

Gorin brings 20 years of client-centric focus to business strategy and operations through his work in corporate turnarounds, process design and improvement, corporate mergers and acquisitions, and management consulting. Prior to joining Getzler Henrich, Gorin was president and general manager of Camlog Biotechnologies, a dental industry supplier, where he established a U.S. presence and led an aggressive international growth program. Gorin holds undergraduate and graduate degrees from The Wharton School at the University of Pennsylvania.