You're Probably Doing Your Layoffs All Wrong

by Klaus Kneale, February 2009

Dr. John Sullivan is a workforce planner. That's a nice way of saying layoff specialist. Sullivan says almost all layoffs and layoff alternatives are done wrong.

That's a big issue, since so many layoffs are happening. The Labor Department reported almost 600,000 job losses in January alone. But businesses that try to avoid layoffs by instituting pay cuts, hiring freezes or furloughs usually screw up too.

The main reasons layoffs and their alternatives are done poorly, according to Sullivan: They're left in the hands of employees and human resources professionals. If you go for voluntary early retirements or buyouts, you're letting your workers decide who stays and who leaves. Top performers will always feel confident they can find a job elsewhere, while poor employees won't. So the good employees will be the ones to exit. You're paying them to walk out the door.

High-paid employees may also feel that if they leave, they'll save the jobs of three others. That's misguided, though, because a company needs the best staff it can get. If it lets its most valuable employees walk, the three others may find themselves without jobs when the company or department folds.

Human resources professionals cause problems because they concern themselves too much with trying to be "fair," partly to avoid lawsuits. That makes them go for across-the-board actions--layoffs, pay cuts or hiring and overtime freezes--that tell employees that performance doesn't matter, that the best and worst staffers will be treated exactly the same. That, too, can drive top performers to begin looking for companies willing to treat them better.

And don't forget how layoffs can feed talent to the competition, especially if the competition is creative and aggressive about it. When Yahoo! cut a chunk of staff at its headquarters in December, a small start-up company called Tokbox, which provides a free video chat service, set up a taco truck across the street from Yahoo!'s corporate headquarters. It gave any Yahoo! employee who stopped by--laid off or not--not only free tacos but a promise of five jobs to be considered for. Tokbox's vice-president of marketing, Micky O'Brien, says it was a sudden idea conceived the day before.

Once you've rejected across-the-board cuts, you may be tempted to make HR hack off the 10% of the staff with the least seniority. That won't do much good for the company either, Sullivan says. It will cost you a lot of new, fresh ideas.

Furloughs (unpaid, forced vacation time) pretty much never make sense. They're terrible for morale, and they don't save much money. Roughly 40% to 60% of what a company spends on its employees isn't salary or wages but rather benefits, workspace and other things that don't stop costing during a furlough. Furthermore, many furloughed employees take their time away as an opportunity to look for a new job--increasing the chances that the best talent will depart. And morale and stress problems afflict the employees left behind, as they feel that they have to make up for the absent staffers. In some jobs, such as sales representative, the amount a worker brings into the business is more than the company can save with a furlough anyway.

The corporate culture should be a major consideration in workforce planning, according to Steve Miranda. He's the strategic planning officer for the Society for Human Resource Management. Companies that have a history of weathering tough times should stick to their own track records.

Consistency matters. Southwest Airlines has kept to a no-layoff policy for decades. If that changed that now, the company would lose a terrific advantage over its competitors.

Whatever you choose to do, layoffs or their alternatives, you need to do it more carefully than is common. Across-the-board anything is a bad idea. It shuts down innovative and reliable producers, indiscriminately punishes top performers and cuts back in areas that could help keep the company profitable. "You wouldn't tell a Michael Jordan not to play for one week just to keep things even with the other players," says Sullivan, who loves to relate layoff strategies to sports, the one industry that he says does workforce management right.

Companies, particularly large public ones, ultimately need to bear in mind that their greatest concern is their remaining employees. In December, Bank of America announced it would lay off 35,000 over three years. "That message was not for the employees," says Mitchell Marks, an organizational psychologist at San Francisco State University. Companies sometimes announce layoffs just to look decisive, he says. That's never worth it.

Marks wrote the book on dealing with workforce trauma, *Charging Back Up the Hill: Workplace Recovery After Mergers, Acquisitions and Downsizings*. Step one: Get the process done as fast as possible. Then let your remaining workers mourn their losses (of coworkers, job security confidence and even a sense of fair play among staff). While companies always see monetary advantage in layoffs, buyout offers, furloughs and freezes, they too often overlook something at least as important: an undistracted employee.

Don't drive out your best employees with your worst.