How to Manage a Layoff

By Lisa Wellman
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Cutting staff is a job that almost everyone finds painful, and in the last few months the pain level has risen rapidly. In July alone, U.S. companies announced 206,000 layoffs, more than three times the number of job cuts that occurred during July 2000. High-tech companies have been especially hard hit: According to one estimate, 41% of this year's layoffs have taken place in the technology sector.

Layoffs and downsizing aren't always a sign of corporate collapse. In fact, it's healthy for companies to occasionally prune away their less-productive people (and it's probably healthy for the employees themselves to get pushed out of the nest). Nevertheless, the immediate impact of most layoffs is traumatic for almost everyone--the suddenly jobless employees, the managers who have to decide who gets voted off the island, and even the demoralized survivors. Worse, layoffs almost always expose companies to serious financial, legal, and public relations risks that may outweigh the short-term payroll savings.

Is there a way to reduce the pain of layoffs? Here's what the experts suggest:

- First, explore alternatives: If the goal is a fairly modest pruning--say, a 5%-10% cut in headcount and payroll--it's probably worth looking into job restructuring instead of chopping heads. In fact, New Ways to Work, an HR consulting firm, claims that employees typically welcome options like flextime, compressed work weeks, telecommuting, job sharing, sabbaticals, and "phased retirement." One advantage to job restructuring, of course, is that trained employees can be easily recalled to their old jobs once the business ramps up again.
  New Ways to Work, 785 Market St., San Francisco, Calif. 94103; 415/995-9860. Web: www.nww.org.
- Watch out for legal pitfalls: We live in a litigious society, and often the first phone call a laid-off employee makes is to a lawyer. "Most lawsuits brought by employees against their former employees are ill-fated," says employment lawyer Manik Rath of McKenna & Cuneo, "but it's still wise to get a waiver of the right to sue in exchange for severance pay." Rath points out that giving severance pay generally isn't a legal obligation for an employer, unless it's promised in executive contracts, offer letters, or an employee handbook. Be especially careful to get waivers from older employees, he adds: "An action for age discrimination is the most likely lawsuit you're going to see.
  Manik Rath, McKenna & Cuneo LLP, 1900 K St. NW, Washington, D.C. 20006; 202/496-7838. E-mail: manik_rath@mckennaandcuneo.com.
- Develop a succession plan: "A lot of the time, the board sets an arbitrary deadline--'cut a hundred jobs by October 1'--with no strategy for the long term," says HR consultant Valerie

Frederickson. As a result, she points out, companies lose talented people who otherwise might develop into the next generation of managers and key professional members. "The right way is to rebuild the org chart around a new strategic plan. Do a complete corporate reshuffling and move the people you want to keep into core departments: It's usually cheaper to retrain your current high performers than to hire new people."
Valerie Frederickson, president, Valerie Frederickson & Co., 800 Menlo Ave., Menlo Park, Calif. 94025; 650/614-0220. E-mail: valerie@vfandco.com.

- Eliminate the deadwood: "Most organizations do a terrible job of eliminating poor performers, and layoffs are no exception," says management consultant Bruce Katcher. Inflated performance reviews and office politics can make it tough to identify people who don't carry their own weight, he notes. One possible solution: insisting that supervisors use a "forced ranking" model to measure the relative value of all employees in their department. "But the real answer is to create a culture where the people who perform well are consistently identified and rewarded."
  Bruce Katcher, president, The Discovery Group, Nine Blair Circle, Sharon, Mass. 02067; 781/784-4367. E-mail: bruce@discoverysurveys.com.
- Be a straight shooter: "What employees want more than anything is for you to be open and honest," says executive coach and author Gordon Miller. "Skip the rationalizations--they want a straightforward, from-the-heart explanation of what's happening." And if at all possible, Miller adds, the CEO should break the news of a layoff in person--never through e-mail messages or through middle managers. "Layoffs are absolutely a top-down job."
  Gordon Miller, chief executive officer, Delta Road, 240 St. Paul St., Denver, Colo. 80206; 303/282-9001. E-mail: gordonmiller@deltaroad.com.
- Keep the rumor mill under control: "Once you've lost your public credibility, it's game over," says investor relations advisor Keith Lippert. "Senior management should be out there, telling a consistent and honest story to corporate partners, customers, suppliers, and investors." Public companies should be especially honest about the specific number of people laid off and the underlying reasons, he adds. "It's amazing--Wall Street finds out about everything. And if you hide the facts, inevitably the conclusions that Wall Street draws won't be what you want."
  Keith Lippert, partner, Lippert/Heilshorn & Associates, 800 Third Ave., New York, N.Y. 10022; 212/838-3777. E-mail: klippert@lhai.com.
- Be careful about asking for volunteers: It may seem less painful to solicit voluntary resignations, but it's usually a company's best people who jump ship first, says Gordon Miller. "In fact, top performers have a tendency to leave any time there's turbulence--even rumors of a layoff. It's the underperformers who stick around and grab turf."
  Gordon Miller, chief executive officer, Delta Road, 240 St. Paul St., Denver, Colo. 80206; 303/282-9001. E-mail: gordonmiller@deltaroad.com.
- Pick up the loose ends: "At one company I worked at," says marketing consultant Frank Catalano, "people would leave and it was like a black hole opened up." Especially when ex-employees are hustled out of the building with no notice, he points out, ongoing projects and relationships are likely to be lost. The solution: "Well before the layoff, put together an ad hoc committee of line managers who know the status of everything that's going on. And after the layoff, these same managers should touch base with everybody the company deals with--customers, partners, press and analysts, and suppliers."
  Frank Catalano, principal, Catalano Consulting, Box 381, Auburn, Wash. 98071; 253/862-2100. E-mail:catalano@catalanoconsulting.com.
- Help with outplacement: Helping laid-off employees is the decent thing to do, but it's also a smart business strategy, argues Lisa Wellman, former chief executive of a dot-com start-up

called Deep Canyon. Wellman knew she'd have to impose mass layoffs when funding ran out, but "key employees had to be motivated to stay on as long as there was potential for funding, acquisition, a bridge loan, or a leveraged buyout, etc." She brought in recruiters to talk to employees about future opportunities, helped them assemble work portfolios, and even set up a special Web site--FormerlyDeepCanyon.com--that contains resumes and contact information for ex-employees. "Being willing to help the team find new jobs reduced their risk in waiting until the last minutes," she notes.

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