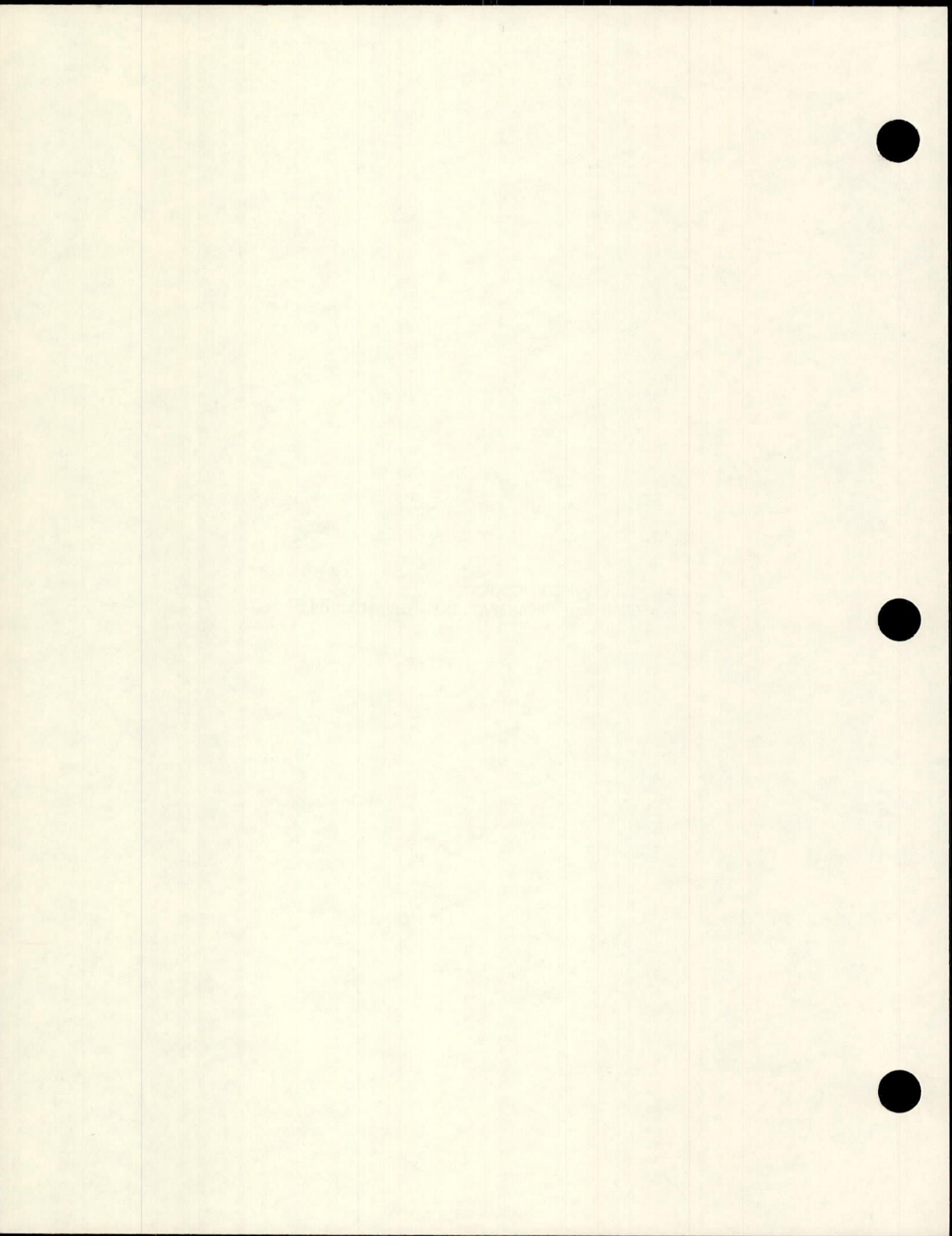


RETRENCHMENT
PERSONAL AND ORGANIZATIONAL IMPLICATIONS



LAY OFFS IN RETRENCHMENT SETTINGS

Robe rta Snow

Management & Behavioral Science
Center
Wharton School, University of PA
April, 1981

INTRODUCTION

Extensive cutbacks almost always result in lay offs. In order to summarize this problem adequately I have broken it down into a series of questions to be answered in the remainder of this discussion. These are:

1. Who does the firing?
2. What lay off strategies are used?
3. What are the impact of lay offs
 - a. On those who are layed off?
 - b. On those who remain within the organization?
 - c. On those stakeholders who are not employees, i.e., unions, clients, political friends and enemies?
 - d. On the organization overall?

These are only a bare bones set of process issues which will have to be fleshed out with respect to Legal Services Corporation. However, they do cover, in an abbreviated but organized way, most of the conceptual work that has been done in this problem area. As such, they will give Legal Services a framework within which to examine their current situation.

1. Who does the firing?

This task has traditionally been the responsibility of middle management. While the higher management levels make the decisions to cut and the line employees usually lose their jobs it is those in the middle who develop and execute the lay-off strategies.

This puts the middle manager in a truly ambivalent position. He is accountable to both those above and below him in the organizational hierarchy. And these two sandwiching levels have diametrically opposed interests. The middle manager must perform adequately in cutting deeply enough in the appropriate places, i.e., firing the right numbers of the right people, to please his bosses. At the same time, he must do it skillfully and tactfully enough to maintain the support of those under him. The success or failure of any retrenchment strategy is usually seen as the result of middle management's capability or incompetence.

The act of laying off employees is one of the most stressful aspects of the retrenchment process. The manager doing the firing must confront a number of employees and communicate that they are no longer "wanted" by the organization. Emotions run high. A number of cases have been documented where this stress has been directly linked to the manager's subsequent poor execution of his other responsibilities, resignation from the organization, and, in extreme cases, physical and mental health problems.

2. What kinds of strategies are used?

There are a number of strategies that are used over and over again in cut-back settings. These are usually implicit and rarely is only one of them used.

a. "Get rid of the dead weight."

Times of cut-back are often viewed as opportunities to get rid of incompetent, surley, redundant, or otherwise undesirable employees. The methods used for implementing this strategy are not always direct, honest or otherwise "above board." However, they are not exactly illegal. For example, performance evaluations become more frequent and the criticisms they communicate more harsh. Policies that were never enforced in the past are suddenly invoked. This is not a lay off strategy in the strict sense of the word. It is, rather, the selectively weeding out of employees. We should keep it in mind here because it is one of the most common ways managers cut down there labor costs during times of austerity without directly confronting employees.

b. "Let attrition takes its toll first."

This could be called a "pre-lay off" strategy. Managers often wait until the last minute before hand ing out the pink slips. Sometimes enough people leave as a result of retirement, illness, or employment opportunities elsewhere so that they do not have to be removed actively. If successful, this method can alleviate the stress that lay-offs generate, not only on the managers, but on all levels of the organization. However, the success of this strategy is often only temporary. If lay offs are eventually necessary, the attrition tactic serves only to delay the inevitable. Moreover, it can exacerbate the situation and contribute to further organizational decline. In particular, it leads to an uneven depletion of the organization's human resource pool. For example, it is not inconceivable that all the clerks or maintenance people might leave at once. New people would have to be hired and trained.

This costs the organization, which is already in a financially precarious position, more money. And long standing employees, lulled into a false sense of security by the attrition tactic, usually react with shock and bitterness when they are eventually cut. And if this firing is simultaneous with the above hiring cries of unfairness and accusations of conspiracy are voiced by the existing and remaining employees. "How can management take on new people, when they're getting rid of me?" It is not difficult to imagine how this could lower morale.

c. "Last hired, first fired."

This is the "rule of thumb" in many personnel departments. And it is generally viewed as a fair practice. Those who have been with the organization the longest are guaranteed some employment security. These persons also have the most to lose in many situations. They are usually the older employees, sometimes with only a few years to go until retirement, who are not generally considered viable in the job market. It is reasoned that the more recent the "younger", employees are the most employable elsewhere. While, this is generally true, the strategy does have its drawbacks. It can force out young creative talent at a time when innovative thinking is sorely needed. At the same time, individuals who tend to resist change and who tend to take reactionary positions are still in their old positions. And another problem resulting from this strategy turns up only if the organization survives the cut-back. What happens when the group that is kept on is ready to retire? There is usually a lack of people ready to take their positions. Hiring, training, etc. must be done at a breakneck pace in order to insure any kind of continuity in the organization's performance. This is expensive and not always the most effective way to staff an enterprise; in essence, the organization must be built from the ground up.

d. "Across the board cuts."

In this strategy, each department assumes the responsibility for making its own cuts. And each department must eliminate the same number of positions or save the same number of salary dollars. Managers who opt for this alternative are often accused of "passing the buck." While this might not be fair, it is accurate in that this strategy often spreads the stress they feel in implementing the lay offs throughout the rest of the organization. And it often appears to other members of the organization that this is a tactic managers use to absolve themselves of the responsibility usually associated with this decision. Aside from imposing this psychological burden on all the employees, this approach often forces out some of the most qualified people. Peers are often called upon to judge their peers. Everyone knows that their jobs are vulnerable. This climate of impending doom and mistrust leads the most employable, i.e., the youngest and the most skilled, to seek opportunities elsewhere. And when the departments do the laying off they usually employ the other strategies mentioned here and suffer all their consequences.

e. "Partial lay offs."

The goal of this strategy is to maintain the same number of employees by cutting their hours and/or their wages. The success of this move relies heavily on employees' loyalty to their organization, their willingness to cooperate with each other, and their ability to survive on reduced pay. This is also seen as a "fair" strategy. The burden of the retrenchment is shared collectively. But, while management's commitment to its employees is obvious, it is often perceived as a partial commitment. It communicates an uncertainty about the future. Will employees be asked to make further sacrifices? Is the inevitable, i.e., complete lay offs or shut down, only being postponed? If the organization can survive these short-term hardships and come through the retrenchment period to a new growth period, this tactic does allow the organization to avoid considerable hiring and training costs. It will have retained a knowledgeable and committed staff in its entirety.

What is the impact of the lay off

a. On those who are layed off?

Depending upon the situation in which the individual is released, the impact can be either beneficial or detrimental to the person in the long run. However, being forced out of a job is always stressful and demoralizing in the short run. And these psychological effects tend to "trickle down" to the individual's family and friends.

The benefits from being released from a declining organization can be summed up as follows:

1) The employee is no longer subject to the stress associated with an unhealthy work environment.

2) He is free to seek employment in a healthy, growing organization, which will insure his economic future.

3) He is forced to reconsider his career path; in so doing, he might opt for further education to acquire more marketable skills.

Problems that often result are more common:

1) Continuing depression if the individual cannot find another job often plagues the person and those close to him. This can also bring about a number of physical illnesses associated with stress.

2) Those layed off often find obtaining a new job a difficult task. There are a couple of reasons for this. Lay offs on resumes are often suspicious to potential employers. And the job market is often glutted with professionals from depressed industries. In these cases, there are few if any openings and scores of people waiting to fill them.

3) The development of the individual's career path is seriously disrupted. If the employee had decided to move up the ranks in the company that layed him off with assumption that his position there was secure, he will have to reformulate his career and life goals.

4) Those layed off almost never recoup the financial losses they incur during their period of unemployment. Again, family and friends often share the burden. And if enough individuals are in this position, the quality of life in the community at large can suffer because of the loss of tax income.

b. On those who remain within the organization?

As is the case with individuals, lay offs can be viewed as either a blessing or a curse by those surviving the cuts. And, once again, the negative aspects heavily outweigh the positive ones.

On the positive side:

- 1) The continuing employees have access to a greater share of the resources.
- 2) Some of the "dead wood" that interfered with their performance is gone.
- 3) They may use the opportunity for creative organizational restructuring.

But on the negative side:

- 1) They often experience an increase in their work load.
- 2) There is low individual and collective moral.
- 3) Likewise, there is low individual and collective productivity.
- 4) The employees work in an insecure environment and continually anticipate more lay offs.
- 5) Most of the qualified, talented and, therefore, employable workers eventually choose to leave.
- 6) Some experience the physical and emotional illnesses associated with working in stressful settings.

c. On those stakeholders who are not employees, i.e., unions, clients, and political friends and enemies?

Lay offs are countable and therefore measurable. They are some of the tangible effects of decline in the organization. They communicate the status quo of the situation to interested outsiders. They provide the stakeholders with a criterion by which to judge the situation. And the reactions that follow from these judgments can either lead to the acceleration of that decline or can help to abate it.

In retrenchment settings, lay offs can lead to paradoxical consequences when influencing external interests. They can turn friends into enemies, or enemies into friends. This does not preclude, however, the possibility that they might strengthen existing bonds of loyalty or exacerbate existing

adversarial relationships.

1. Unions

Labor leaders often fight against lay offs vehemently. And if they cannot succeed in stopping them, they invoke bumping procedures to the letter to make them as difficult as possible for managers to implement. They see the rank and file as targets of unfair management practices and whether forced out of a job, or forced to assume a greater work-load after their colleagues leave. In these situations the unions do not see the situation from management's point of view. They are blind to the cut back situation with its implications and do not realize that their actions could have dire consequences for union members as well as management in the future. For example, their cries of unfair practice can further lower morale and thereby reduce productivity. This, in turn, leads to an inability for the organization to compete, etc. A number of other disaster scenarios triggered by union actions can be worked out.

On the other hand, when the cuts are severe enough and the union leadership realizes that their very existence is being threatened, they sometimes cooperate with management. They realize that the jobs of dues paying members are on the line, and that if they act to save a few jobs in the beginning, this may result in losing them all in the end. In these rare situations they collaborate with and make concessions to management outside the collective bargaining process. For example, they may approve schemes for increasing productivity which they would normally protest.

2. Clients

Clients, especially when they are paying for a service or a product, are usually more than willing to buy that service or product from another organization if 1) there is something wrong with the delivery of the organization currently being used and 2) there is another organization which provides the same service/product at a comparable price. And as lay offs often result in poor delivery, clients usually become dissatisfied and go elsewhere.

However, when there is no alternative for them or the alternative is too costly they will remain loyal to the organization. In this instance,

they adopt one of two modes of behavior. First, they can attempt to be supportive and help improve the delivery of the organization. Second, they can become critical and disruptive, further lowering the morale and the productivity of remaining employees.

3. Political friends and enemies

Political friends will often behave in a manner similar to those of clients. They can "exit" and foresake the declining organization just as rats desert the proverbial sinking ship. Or they can become more vocal supporters. (And this form of otherwise well intentioned support can take the form of harmful criticism and intervention.) This corresponds to the attitudes summed up the the trite but appropriate phrases: "It's not wise to back a loser" and "America loves an underdog."

Enemies, true to their role, react to layoffs as further evidence of the inviability of the declining organization. They usually attack calling for more cuts, publicizing failures, etc. This pattern is true of almost any case of cut back. However, there are a few interesting exceptions. These instances of "foe turned friend" come about when the enemy perceives himself to be in a position similar to those of the declining organization, and as a future target for similar cuts. He may see the lay offs as a signal of his own impending demise. In these cases, he may align himself with the declining organization advocating their necessity, praising their practises, etc. This is often the case with school boards who traditionally compete for funds on all levels of government. However, when one school is on the verge of closing for lack of funds the boards cluster together as a support group.

d. On the organization as a whole?

The following list of consequences is intended to compliment the discussion of the impact lay offs have on individuals. Just as an organization cannot be discussed without taking into account the persons it incorporates, it cannot be adequately treated without including the properties peculiar to it as a collectivity.

These can include:

- 1) loss of the most talented, innovative employees at a time when the organization needs them the most,
- 2) uneven depletion of the human resource pool,
- 3) insecure work atmosphere,
- 4) lower overall morale,
- 5) lower overall productivity,
- 6) lower organizational effectiveness,
- 7) lower organizational efficiency,
- 8) incursion of unanticipated costs,
- 9) loss of organizational credibility,
- 10) loss of political power.

END NOTE

Most of the strategies explicated here are unconsciously adopted - and their negative consequences an unanticipated surprise to the organization. If Legal Services is to treat and plan for its retrenchment completely and effectively this issue of lay offs must be addressed in a direct fashion. The strategies and possible effects should be made explicit before decisions concerning the human resources are made.