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Creative Alternatives to Layoffs May See a Resurgence

Source: [IT Business Edge](#) | Priority: [Aligning IT & Business Goals](#) | Topic: [Reductions](#)
Date Published: 12/22/2008

By Ann All

The news of layoffs in the IT industry keeps coming, with Yahoo, Alcatel-Lucent, Sony, AT&T, Adobe and Sun making staff cuts in recent weeks. Recruitment specialist Challenger Gray & Christmas expects the technology sector to shed 180,000 jobs in 2008.

Along with layoffs, some tech companies are adopting cost-cutting operational measures not seen since the dot-com bust. Apple, Adobe and HP, for instance, are among companies lengthening year-end shutdowns and in some cases asking employees to supplement their usual paid holiday days with vacation days.

Though unusual today, these kinds of cost-saving measures, along with others such as offering voluntary retirement packages, asking employees to take voluntary salary reductions and reducing work weeks, were more common at financially struggling companies until the late 1980s, says Peter Cappelli, director of Human Resources at the University of Pennsylvania's Wharton School. Mass layoffs were so uncommon that the U.S. government didn't even begin tracking permanent job loss until the mid-1980s.

Then along came executives like Al Dunlap, who as CEO of Scott Paper laid off 11,000 employees, 35 percent of the workforce, before selling the company to Kimberly-Clark in 1995. The result: Scott shareholders saw their investment grow by 225 percent. Dunlap later crashed-and-burned in trying to carry out a similar strategy at Sunbeam Corporation. Though Dunlap was widely reviled by the business community, Wall Street continued to reward companies executing mass layoffs with increases in their stock prices, and the strategy stuck.

"The pressure from the investment community on companies to cut costs, especially in downturns, accelerated. And there was a strong view that stock analysts looked favorably on companies for cutting jobs," says Cappelli. "That became the prevailing wisdom, even though there is no evidence that cutting jobs works better than alternatives to layoffs and a fair bit of evidence that layoffs don't help performance."

Cappelli would like to see more companies employing alternatives such as Cisco Community Fellows, an unusual program offered by the networking giant in 2001. About 80 Cisco employees opted to work for nonprofits for a year, pulling down a third of their usual wages, rather than cutting ties with the company. During that time, they received employee benefits, vesting and access to training and continuing education. If jobs opened up, the fellows enjoyed an advantage over external candidates. If their years of service ended without placement in another Cisco job, they remained on Cisco's rolls for an additional 60 days while job hunting.

Ellen Raim, who served as director of talent management for Intel from 2002 to 2004 and is now a principal with Oregon-based consulting company the Coraggio Group, says she "loves" this idea. "It helps the community, the employer and the employee. The negative is if the market does not turn around in the allotted time, the company is faced with the problem of what to do with those employees. So it's important at the outset to determine who is allowed to participate in this type of activity."

Can companies afford to pursue these kinds of alternatives? Companies typically

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... underestimate separation costs such as legal fees, severance packages, outplacement services and work redistribution, says Cissy Pau, principal consultant for Clear HR Consulting. When business picks up, they must recruit and train new workers, a cost that typically far exceeds keeping existing employees on the rolls. Valuable institutional knowledge is also lost when employees are laid off.

"Layoffs without any kind of corporate restructuring or efficiency improvement won't provide the long-term results you want," says Pau. "If you say 'I need to cut the budget by \$10 million' and lay off \$10 million worth of people, how are you going to deal with the work? What about the expertise you'll lose? What about the stress of the people who remain? It's not a permanent solution. The corporate reorganization has to go hand in hand (with layoffs) or else you're just going to find yourself doing more layoffs."

The economy in Vancouver, British Columbia, where Clear HR Consulting is based, hasn't yet suffered as much from the global economic slowdown as the U.S., says Pau. While many of her company's clients are implementing measures such as hiring freezes, few are currently considering layoffs. But Pau helped execute a layoff of 300 employees – including herself — at a Canadian aerospace company in early 2002 when the industry was reeling from the aftereffects of September 11.

Canada's aerospace industry utilized a number of creative alternatives to minimize the number of layoffs following 9/11, says Pau, including reduced work weeks. In some cases, the Canadian government provided unemployment benefits to make up for decline in working hours. Although offering reduced hours is "a very gentle" way to cut costs, says Raim, it often won't free up enough resources to avoid layoffs.

Pau believes more companies, even those that ultimately end up making staff cuts, are trying alternatives first. The decision of whether to lay off employees usually hinges on how long a company thinks an economic downturn will last. Canadian companies are resisting layoffs because competition for talent has been intense while the country enjoyed a period of high unemployment during the past few years.

"What companies have learned, I think, is that they've had to stand out as a great employer," says Pau. "As economic conditions worsen, I think this still plays in the back of their minds. They'll still need to be an employer of choice in tough times because when things turn around, they'll need to be able to attract people."

Cappelli doesn't agree with Pau. "I think (companies will) stick to layoffs. I don't see companies with any interest in being creative right now or worrying about the long term. By that I mean further out than the next couple of quarters," he says.

Using layoff alternatives requires the support and involvement of senior managers and the board of directors, "which is sometimes difficult to get," says Pau. In addition to gaining that support, she stresses the importance of determining which options make the most sense for your company. "You want to pick one or two and stick with them, because it'll put the company into a tailspin otherwise. If you come in every few weeks with another option, that's going to hurt morale."

If possible, says Pau, it's a good idea to garner feedback from employees on the available alternatives before making a final choice.

Offering voluntary separation and/or early retirement was one of the most consistently successful layoff alternatives used by companies with whom she's worked, says Pau. Raim agrees this strategy can work well. Employees who volunteer to leave generally won't initiate legal action against their former employer, and remaining employees feel better about their positions since a choice was offered.

The primary caveat to this approach, says Raim: "Unless the actions are designed and administered well, you risk losing people you wanted to keep."

Somewhat less successful, says Raim, are across-the-board salary reductions, which can erode morale. "High performers feel the company is keeping lots of people who are underperformers at the expense of the good performers."

Other alternatives mentioned by Raim: working with those who have accepted jobs but not yet begun work to postpone start dates; freezing intern/summer/new college graduate hiring; and prohibiting managers to "back fill" for employees who quit.

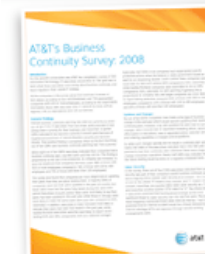
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While the latter option is an easy and gradual way to begin shrinking headcount, she says, it may mean people end up in positions for which they aren't well suited. "This leads to managers asking for exceptions to the prohibition which causes hard feelings and may make the exceptions swallow up the rule."

Though alternatives such as reduced hours or salary cuts may be preferable to layoffs, Raim says companies should remember that they may still impose hardships on employees. "It's about minimizing the pain, not eliminating it. At the end of the day, you are still asking employees to take actions that aren't likely to benefit them."

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Source: [Network World](#) | Priority: [Maximizing IT Investments](#) | Topic: [Reductions](#)
Date Published: 10/1/2008 | Date Reviewed: 10/1/2008

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Source: [Bloomberg](#) | Priority: [Maximizing IT Investments](#) | Topic: [Reductions](#)
Date Published: 11/3/2008 | Date Reviewed: 11/3/2008

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