Making Layoffs Strategic

Eurozone economy shrank by 1.5% in the previous quarter and 1.2% on the year.

US unemployment rate rose to 7.6% in January, the highest level since 1992.

The US economy has lost 3.7 million jobs since the recession began in December 2007, with nearly half of those jobs shed in the past three months.[1]

NEWS OF LAYOFFS — in the US and abroad — continues to headline in most geographic areas. And that trend is expected to persist at least for the near term. Most layoffs are cited as critical to helping the organization to compete more effectively (via reduced operating costs) amid tight credit markets and low consumer demand. However, we're hearing among our clients and on the street that organizations have cut 'too deeply' or 'not cut the right folks'. True or not, these kinds of comments beg the question: How do we ensure that the outcomes of our layoffs support the future picture versus providing just a short term fix?

We suggest three key ingredients to balance your short term needs against insuring your future success.

1. Determine your future organization structure – look 18-24 months ahead. Set your layoff targets versus that future need, NOT on today's structure and current issues or demands. Even when lay-offs are required, it's critical to retain those team and individual skills that will accelerate your organization through the upturn. Cut too deeply (or not in the right places) and you risk not being ready to capture emerging opportunities.

   Build the most likely 2 or 3 scenarios of the future organization. Use these to help you to estimate emerging needs and to identify which competencies will be required. Building 'to be' scenarios allows your senior management team to share expectations and to agree on specific preparations for the upturn, including how quickly you can make that change and identifying the 'indicators' that signal the upturn.

2. Calculate the cost of rehiring. It's tempting to take out cost quickly through layoffs but there is a cost associated with choosing wrongly. Decisions to lay off individuals need to be weighed against the future cost of rehiring. Reviewing your current situation in the context of your future structure before layoffs can help to avoid this cost. It can also provide the backdrop for other decisions, such as the cost-benefit of redeploying and re-skilling employees.

3. Survive and thrive in the meantime. How do you do this? The following actions can help to decrease the likelihood of layoffs and to increase productivity. And, each suggested action constitutes a far more positive approach to this economy than is typical. That alone can boost morale and engage people's ingenuity on the right things.

   - *Reconsider your prior strategies for 'make or buy'.* If it's practical, consider bringing work back into your organization from outsourcing and off-shoring operations. Research over the past 5 years has indicated that realized benefits from outsourcing vary – from lack of cost reduction achievements to increased management attention and risk management. In 2005, BCG and Gartner predicted that 50% of off-shoring contracts would fail to meet expectations.[2] Why not review what you can bring back in to redeploy precious competencies and maybe, achieve better benefits overall?

   - *Think 'innovation'.* Jeff Immelt, GE's CEO says: "Technological innovation is going to be more important then ever."[3] While so many organizations are contracting, it's a great time to really be creative. Tap into your top talent. Redeploy them on accelerating new product launches, experimenting with ideas, or creating ongoing tools to improve work processes, products, or customer management. Focus this ingenuity on the key success factors you'll need post-recession. Follow Intel's lead: It will 'invest $7billion in innovation, upgrading manufacturing technologies, redeploying assets and people, and accelerating product launches as part of its 'investing in the downturn' strategy'.[4]

- *Tackle the recurring issues.* Again, it may not feel like the right time to start a new initiative, but in fact, it's potentially a great opportunity to use your talent differently, including those experienced 'old hands' whom you may otherwise be tempted to retire early. For example, tackle entrenched customer complaints on key accounts; develop 'root cause' analysis and solutions for recurring process problems to diminish fire-fighting and sustain productivity improvements; figure out how to document and share your institutional knowledge – for real this time.
- *Rethink how and where work is done.* Consider different operating models to amortize fixed costs and retain key talent. Appeal to different generations of employees who have new ideas of how, where, and in what way they want to work. What does that look like? Perhaps consider: job sharing; secondments of key talent to other parts of the globe on shorter term assignments (develops talent and 'outplaces' the costs for a critical period, while addressing a real need); flexible work schedules; more effective use of part-time work; or furloughs and sabbaticals.
- *Deal with mediocre performance* as part of a mitigation strategy to counter the need for future layoffs. We assume you've already addressed poor and substandard performance as part of the initial strategies. Typically, however, there are a range of C and B- performers who remain. Place these individuals or teams on very specific, performance improvement/capabilities expansion programs. Be sure they are tied to a clear timeline for measurable progress – and follow through! Meanwhile, it will send crucial signals about your willingness to help employees, while also enforcing accountability.

Layoffs have become a fixed strategy in North America to respond to unfavourable economic cycles to restructure costs; gradually, it's a strategy that has become more common across the globe. Nevertheless, like other tools, layoffs must be used judiciously and always with an eye to your desired future since layoffs can also diminish current core competencies or disable emerging competencies. In turn, that can inhibit future growth potential, because just when you need to be fast-tracking emerging opportunities you may be hampered by the additional cost, the loss of flexibility and speed as you struggle to re-build competencies. We encourage you to continue to take the long view and resolve your current challenges utilizing an array of options in addition to lay-offs. It's a survival tactic for this recession, and an opportunity to position yourself to accelerate up the curve at the first signs of recovery.

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[1] BBC News, Global Economy, 6 February 2009.

[2] Ravi Aron/ Jitenda V. Singh, *Getting Offshoring Right*, HBR, December 2005.

[3] *Globe & Mail*, Speech to the Canadian Club in Toronto, 11 February 2009.

[4] Paul Otellini, CEO of Intel, Speech to Economics Club, Washington, DC, 11 February 2009.