

Judgment Day

How leadership handles a layoff determines how well they keep the remaining followers engaged.

Few decisions impact employee engagement more than the decision to have a layoff. It takes years to build a culture of high employee engagement and it is well documented how important engagement is to productivity, innovation, customer satisfaction and shareholder return. Yet the single action of moving through a group of employees and choosing who stays and who goes can leave deep and difficult-to-heal scars. The destruction of employee trust in management can be palatable as employees recall the day of notifications as “Black Monday” for years after the event. While management is making judgments about employees to decide who goes and who stays, employees in turn make judgments about their management. They watch carefully how the layoff is handled and will make decisions about the company, its values, and their commitment to their job as well as you as their leader. And if they do not like what they see, the best of your employees will eventually quit and leave, simply because they can, while others who can’t leave will instead quit and stay while still on the payroll.

Nearly all companies have layoffs at some point in their corporate lives. And the companies who fail to heed the signs of a business downturn and fail to take action will soon be gone. “Employees, for the most part get this”, says Duncan Mathison, an 18 year veteran of working with companies implementing workforce reductions. “Over the years there has been extensive research on employee reaction to layoffs and how quickly a company can recover from the adverse impact. What has been learned is that employees evaluate a company and its leadership on two levels when implementing layoffs. The first is the perception of what is called ‘Organizational Justice’ and the second is referred to as ‘Procedural Justice’. Fail either test and, as a leader, you will lose the hearts and minds of your employees.”

Organizational Justice is whether employees understand the reasons behind the decision to do a layoff. They want to know, if they were in the CEO’s shoes, facing the same facts that they too would have come to the same conclusion. Saying you need to cut costs is not a reason. But pointing to change in consumer behavior or shifts in technology that reduce revenues resulting in the cost cutting that includes layoffs; employees understand. The lesson here is simple. Management must sell the problem that is driving the change. An added advantage to selling the problem is that it focuses the organization on the most pressing business challenge. The message is clear. Want to reduce the chance of future layoffs? Let’s solve the problem – together.

Procedural Justice is the perception that the decisions as to who goes and who stays are fair. Was selection criteria evenly applied? Was there a business rationale for each decision? Were people treated with respect and dignity throughout the process? Were released employees provided with help to land on their feet? These are neither difficult nor expensive measures to implement. However, employees will not forgive any leadership who allows backroom dealings, political favoritism and heavy-handed separation practices.

Some very well done research has actually demonstrated that well handled layoffs plus an aggressive approach to communications can actually increase employee commitment and perception that their employer is "trustworthy, honest and caring". The study also demonstrated how to avoid a slide in performance metrics. However, many workforce reductions are put together hurriedly, with small teams and because the planning has to be done in secret, managers often make critical business decisions with incomplete information skipping the essential components that are required to pass employee judgment. Rapid business recovery demands the full engagement of remaining employees. As a result, managing workforce reductions well can be the acid test of a great leader and the serve as a foundation to building a more effective organization for the future.

When planning for job losses, keep these objectives in mind:

Start communication planning at the beginning of the process, not at the end. Last minute messaging is often sloppy and prone to misunderstanding. This is the most common error made by management teams immersed in restructuring. Decisions that are difficult to explain are often bad decisions. Early message development will reduce errors and assure quality responses to difficult employee, customer and investor questions. Well crafted communications are the best antidote to a rumor mill that might get out of control.

Have a clear, well articulated process to select who goes and who stays. Assure every decision regarding an employee is driven solely by business requirements and reviewed by both management as well as HR. Defending the fairness of decisions is easier when decisions were thoughtfully reviewed. Avoid "across the board" reductions where every operation gives up 10%. Some groups may be more essential than others for future success.

Recognize that separation logistics take even the best HR team time to prepare. Orchestrating the notification and separation logistics for large numbers of employees requires detailed planning. HR

must assure every notification package is right, the company assets are protected, managers are trained for difficult employee conversations and contingency plans are in place. Administrative mistakes caused by major last minute changes under intense pressure will adversely impact your leadership credibility.

Have a plan to reengage remaining employees in key business priorities ready to roll-out immediately after the event. Downsizings are highly disruptive to established business processes, employee engagement and effective performance. A solid remaining employee communications plan for the following week is essential. One time “all hands meetings” are insufficient in addressing common open issues that can fester. In addition, a four week focus on operational effectiveness to work out the process gaps created by exiting employees will accelerate recovery and engage employees in critical business priorities.

Get help. Most reductions are done poorly not because leaders are incapable of learning how to do it well, but because most successful leaders never have enough experience doing downsizings to become good at it. And who would want to be? Assemble a transition team with advisors well versed in the issues related to employee exits and remaining employee engagement. Employees can understand the necessity of these decisions. But they have high expectations that your decisions that impact jobs are handled uncompromisingly well.

About Duncan Mathison:

For nearly 18 years Duncan Mathison has guided companies and their leadership through the gut wrenching change of RIF's, reorganizations, acquisitions and operation shutdowns. He is an author and speaker on organization performance, leadership and executive career topics including serving as a contributor to “Building High Performance People and Organizations” (Praeger, 2008) and “Rebound, A Proven Plan for Starting Over After Job Loss” by Martha Finney (FT Press, 2009); and co-author on “The Truth About the Hidden Job Market”, due out Summer of 2009. His clients have ranged across industries including finance, technology, telecommunications, biotechnology, retail and entertainment.

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