CHAPTER 6

# Managing Employee Separations, Downsizing, and Outplacement

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## CHALLENGES

*After reading this chapter, you should be able to deal more effectively with the following challenges:*

1 **Understand** employee separations.

2 **Gain** mastery in identifying types of employee separations.

3 **Have** familiarity with managing early retirements.

4 **Learn** practices for managing layoffs.

5 **Recognize** the role of outplacement.

Maintaining the fiscal health of an organization, particularly in difficult economic times, often means cutting costs. In most organizations, a significant portion of the cost of doing business is the cost of labor. Layoffs are one tool organizations use to reduce labor costs.

The reduced employment level due to a downsizing is typically meant to improve productivity and the financial situation of the firm. However, there can be difficulties in using layoffs as a means to improve organizational performance. Below are some points to consider regarding layoffs.

- Downsizing became a common practice and familiar term by the mid-1980s. The number of layoffs peaked in the 1990s and again in the recent recession during 2007 through 2009. The layoff numbers declined in 2010, but the practice continues.[1]

Employee separations need to be handled fairly.
*Source:* David De Lossy/Thinkstock.

- In the 1960s and 1970s, job cuts tended to affect blue-collar workers. Although the initial focus of layoffs was elimination of lower-skilled and hourly workers, that is no longer true. For example, Zynga, an online gaming pioneer, has eliminated hundreds of employees from its workforce.[2]
- Until the early 2000s, layoffs were largely seen as a means to get a boost in stock price. Large, publicly traded firms would get noticed for their layoff announcements, and there was a belief that investors rewarded the cost-cutting measures with an increase in the stock prices. Recent research, however, indicates that layoff announcements are generally associated with a negative stock price response.[3]
- Layoffs have been associated with a number of negative outcomes. Internal to the organization, morale can

decline and concerns over job security can become a focus for surviving workers.[4] External to the organization, the reputation of the organization may suffer. For example, a former employee may post negative comments about their former employer, particularly if he or she feels that the layoff was unfair.[5] More broadly, a major layoff can have a negative effect on an entire community. If a company is a major employer in town, a layoff could affect the livelihood of many people and the economic health of families in the community.

Overall, layoffs, as with any kind of employee separation, can have negative or positive consequences. An important factor is how well the employee separation process is managed.

### The Managerial Perspective

Global competition and technological advances have changed the rules of competition, forcing many firms to become increasingly productive with smaller workforces. In addition, voluntary turnover—people choosing to leave their jobs—can be an issue for companies. People can choose to leave their jobs for a variety of reasons, including job opportunities that can arise, even in tight economic times.

Managers must not only develop skills to help an employee who leaves the company voluntarily, but they must also aid employees who have been fired for cause or are being let go for economic reasons. A badly managed ending to the employment relationship can damage a firm's reputation in its industry or community and limit its ability to attract the scarce, talented employees that it may need in the future.

This chapter deals with the sometimes unpleasant task of managing an organization's outflow of human resources. We explore the process leading up to an employee's exit from the firm and how to manage that process effectively.

### Learn It!

If your professor has chosen to assign this go to **www.mymanagementlab.com** to see what you should particularly focus on, and take the chapter 6 warmup.

## What Are Employee Separations?

**employee separation**
The termination of an employee's membership in an organization.

**turnover rate**
The rate of employee separations in an organization.

An **employee separation** occurs when an employee ceases to be a member of an organization.[6] The **turnover rate** is a measure of the rate at which employees leave the firm. Well-managed companies try to monitor their turnover rate and identify and manage causes for turnover. The goal is to minimize turnover and the costs of replacing employees. Replacement costs, particularly for highly skilled positions, can be surprisingly high. For example, replacing a U.S. Navy fighter pilot may cost more than $1,000,000.[7] However, multiple turnover rates can be calculated, and it is important to focus on the correct numbers. Exhibit 6.1 presents the basics about calculating turnover rates. An excessively high turnover rate compared to the industry standard is often a symptom of problems within the organization.

Employee separations can and should be managed. Before we discuss the management of separations, however, we examine both the costs and the benefits of separations.

### The Costs of Employee Separations

The cost of turnover can differ across organizations, and some costs associated with turnover can be difficult to estimate. For example, an organization's geographic location may necessitate a particularly high cost of recruiting new employees, which causes the cost of turnover in that organization to be unusually high. The effect of lost talent on sales, on productivity, or on research and development all may be tremendous, but difficult to estimate.

## EXHIBIT 6.1 A QUICK LOOK AT THE NUMBERS: A TURNOVER RATE PRIMER

Turnover happens in all organizations. The rate of turnover can vary over time and across companies and industries. Before determining whether your turnover rate is high compared to other time periods or to other organizations, be sure you calculate it accurately.

You need the number of employees exiting each month and the average number of employees on staff during each of those months. The following formula calculates this rate:

$$\text{Turnover} = \frac{\text{Number of employees leaving the job}}{\text{Average number of employees during the period}} \times \frac{12}{\text{Number of months in the period}}$$

Let's consider the following situation. Over the course of 6 months, you have had 12 employees leave a department. The average number of employees in the department is 50. Given these numbers, your annualized turnover rate is:

$$12/50 \times 12/6 = .48$$

Over the 6 months your turnover rate has been 24 percent; however, the formula indicates that this rate is 48 percent on an annual basis.

Knowing the overall turnover rate can provide a rough comparison point. However, breaking the overall rate down into various components can help you to understand the sources for turnover and help to determine whether you have a problem. A helpful way of breaking out the overall rate is to use the categories in Figure 6.1.

"Source of turnover" refers to whether the employee decided to leave the organization (voluntary) or management made the decision to end the employment relationship (involuntary). "Type of turnover" can be divided into people who left the organization (external) and employees who left the job but took another position in the organization (internal).

You can calculate turnover rates for each of the four cells in the source-by-type matrix. A high rate of turnover that is voluntary and external, a high quit rate, could be of particular concern and be symptomatic of organizational problems.

| Type of Turnover \ Source of Turnover | Voluntary | Involuntary |
|---|---|---|
| External | Quits | Terminations |
| Internal | Voluntary Transfers | Mandatory Transfers |

**FIGURE 6.1**
**Source and Type of Turnover**

*Source:* Cleveland, B. (2005, June 1). Tackling turnover. *Call Center*, 16. Reprinted with permission.

Employee turnover affects the bottom line. A recent survey of over 200 insurance brokerages demonstrates the relationship between employee turnover and firm profitability.[8] The brokerages were arbitrarily divided into two groups: those with profitability that exceeded 20 percent of sales and those with profitability under 20 percent of sales. Employee turnover in the lower-profit group was approximately twice as high as turnover in the higher-profit group. The profit level in the high-profit group was 30.3 percent of sales, and the profit level in the lower profit group was 11.4 percent of sales. Although turnover might not be the only cause of these profit levels, these findings indicate that employee turnover is an important factor in bottom-line performance.

Unfortunately, organizations can find it difficult to reduce employee separations when turnover is part of the system. The Manager's Notebook, "Voluntary Turnover in China," is part of the business reality in China.

It is common to estimate the cost of turnover from a conservative 25 percent[9] to 300 percent of the lost employee's annual compensation.[10] Looking at the most conservative end of that range, at an average salary of $30,000, the cost of a turnover would be $6,000.

| Recruitment Costs | Selection Costs | Training Costs | Separation Costs |
|---|---|---|---|
| • Advertising | • Interviewing | • Orientation | • Separation pay |
| • Campus visits | • Testing | • Direct training costs | • Benefits |
| • Recruiter time | • Reference checks | • Trainer's time | • Unemployment insurance cost |
| • Search firm fees | • Relocation | • Lost productivity during training | • Exit interview |
| | | | • Outplacement |
| | | | • Vacant position |

**FIGURE 6.2**
**Human Resource Replacement Costs**

For a company with 1,000 employees and a 20 percent turnover rate, the annual cost of turnover would be at least $1,200,000—not a trivial cost, and it could be much higher depending on the situation. Figure 6.2 presents only some of the costs associated with replacing an employee. The costs can be categorized as *recruitment costs, selection costs, training costs,* and *separation costs.*

**RECRUITMENT COSTS** The costs associated with recruiting a replacement may include advertising the job vacancy and using a professional recruiter to travel to various locations (including college campuses). To fill executive positions or technologically complex openings, it may be necessary to employ a search firm to locate qualified individuals, who most likely are already employed. A search firm typically charges the company a fee of about 30 percent of the employee's annual salary.

## MANAGER'S NOTEBOOK

Global

### Voluntary Turnover in China

Employee turnover in the United States and Europe average around 5 percent annually, while voluntary turnover in China is approximately 19 percent. Turnover rates in China have been found to vary across companies and range from 11 to 40 percent. Multinational companies doing business in China face an employee turnover rate that is approximately 25 percent above the global average.

What accounts for the high quit rate in China? Simply stated, demand for labor exceeds supply. Companies in China are dealing with labor shortages and fighting for the talent they need to effectively operate their businesses. A shortage of talent in China is identified as a barrier by multinational and Chinese companies. A slowdown in the Chinese economy is expected to somewhat lessen the overall shortage of labor, but a need for talented managers is expected to grow.

The need for experienced workers, particularly those with management experience and training, means that there are a number of job openings that can hire employees away from their current jobs. The highly competitive job market makes for a more mobile workforce and a higher employee turnover rate.

Wage rates in China have increased as a means to retain and attract labor. However, it is not just about wages. Companies in China are also finding that they need to provide employees a good value proposition in order to retain their talent. For example, offering leadership and management skills training can be a valuable benefit to employees and increase their commitment to stay with the employer. Providing paths for people to move forward in the organization and being transparent about what it takes to move forward on those paths can also contribute to employees deciding to stay with the organization. Although there are steps that organizations can take to reduce employee turnover, it is part of the business reality in China that job opportunities are plentiful. Having those opportunities certainly makes voluntary turnover a more difficult problem to manage.

*Sources:* Based on Huang, J. (2013). Developing local talent for future leadership. *The China Business Review*, *40*, 28–30; John, I. S. (2013). Average salary increases of 9.1%, turnover rate of 18.9%. *China Benefits and Compensation International*, *42*, 51; Silva, J. D. (2012). The war for talent in China. *Ivey Business Journal Online*, retrieved on June 9, 2013 from Proquest.

**SELECTION COSTS** Selection costs are associated with selecting, hiring, and placing a new employee in a job. Interviewing the job applicant includes the costs associated with travel to the interview site and the productivity lost in organizing the interviews and arranging meetings to make selection decisions. For example, a law firm's decision to hire a new associate may require the participation of many junior associates as well as senior partners who may charge clients hundreds of dollars per hour for their time.

Other selection costs include testing the applicant and conducting reference checks to make sure the applicant's qualifications are legitimate. Finally, the company may have to pay relocation costs, which include the costs of moving the employee's personal property, travel costs, and sometimes even housing costs. Housing costs may include the costs of selling one's previous house and the transaction costs of buying a house in a more expensive market.

**TRAINING COSTS** Most new employees need some specific training to do their job. Training costs also include the costs associated with an orientation to the company's values and culture. Also important are direct training costs—specifically, the cost of instruction, books, and materials for training courses. Finally, while new employees are being trained they are not performing at the level of fully trained employees, so some productivity is lost.

**SEPARATION COSTS** A company incurs separation costs for all employees who leave, whether or not they will be replaced. The largest separation cost is compensation in terms of pay and benefits. Most companies provide *severance pay* (also called *separation pay*) for laid-off employees. Severance pay may add up to several months' salary for an experienced employee. Although length of service is the main factor in determining the amount of severance pay, many companies also use formulas that take into account factors such as salary, grade level, and title.

Less frequently, employees may continue to receive health benefits until they find a new job. In addition, employers who lay off employees may also see their unemployment insurance rates go up. Companies are penalized with a higher tax if more of their former employees draw benefits from the unemployment insurance funds in the states in which they do business.

Other separation costs are associated with the administration of the separation itself. Administration often includes an **exit interview** to find out the reasons why the employee is leaving (if he or she is leaving voluntarily) or to provide counseling and/or assistance in finding a new job. It is now common practice in larger firms to provide departing employees with **outplacement assistance**, which helps them find a job more rapidly by providing them with training in job-search skills. Finally, employers incur a cost if a position remains vacant and the work does not get done. The result may be a reduction in output or quality of service to the firm's clients or customers.

**exit interview**
An employee's final interview following separation. The purpose of the interview is to find out the reasons why the employee is leaving (if the separation is voluntary) or to provide counseling and/or assistance in finding a new job.

**outplacement assistance**
A program in which companies help their departing employees find jobs more rapidly by providing them with training in job-search skills.

Who conducts the exit interview? The exiting worker's manager is usually a bad choice, because he or she is often the reason for voluntary separations. The interviewer should have very good communication skills and be in a neutral position regarding the employee's departure. Some organizations are moving to Web-based exit interviews, assuming that people may be more open about their reasons for leaving without a face-to-face interaction.[11] However, some workers may find that the human interaction and concern of a skilled interviewer allows them to open up more than would a Web-based interaction.

An overriding issue is how turnover and the various costs associated with it can be reduced. One important factor to recognize in managing employee turnover is that turnover often occurs early in the employment relationship. For example, an organization may experience most employee turnover within the first 30 to 60 days of employing a worker. However, many organizations calculate only annual turnover rates, and this gross measure can mask the reality that most of the turnover occurs in the first two months of employment. A reduction in turnover in the first months of employment can pay dividends for the rest of the year. Reducing the voluntary quit rate in the first month of employment can mean that fewer workers need to be hired as replacements for the rest of the year.[12]

### The Benefits of Employee Separations

Although many people see separations negatively, they have several benefits. When turnover rates are too low, few new employees will be hired and opportunities for promotion are sharply curtailed. A persistently low turnover rate may have a negative effect on performance if the workforce becomes complacent and fails to generate innovative ideas.

Employees may receive some potential benefits from a separation, too. An individual may escape from an unpleasant work situation and eventually find one that is less stressful or more personally and professionally satisfying.

**REDUCED LABOR COSTS** An organization can reduce its total labor costs by reducing the size of its workforce. Although separation costs in a layoff can be considerable, the salary savings resulting from the elimination of some jobs can easily outweigh the separation pay and other expenditures associated with the layoff.

**REPLACEMENT OF POOR PERFORMERS** An integral part of management is identifying poor performers and helping them to improve their performance. If an employee does not respond to coaching or feedback, it may be best to terminate him or her so that a new (and presumably more skilled) employee can be brought in.

**INCREASED INNOVATION** Separations create advancement opportunities for high-performing individuals. They also open up entry-level positions as employees are promoted from within. An important source of innovation in companies is new people hired from the outside who can offer a fresh perspective.

**THE OPPORTUNITY FOR GREATER DIVERSITY** Separations create opportunities to hire employees from diverse backgrounds and to redistribute the cultural and gender composition of the workforce while maintaining control over hiring practices and complying with the government's Equal Employment Opportunity Commission policies.

## Types of Employee Separations

Employee separations can be divided into two categories. Voluntary separations are initiated by the employee. Involuntary separations are initiated by the employer. To protect themselves against legal challenges by former employees, employers must manage involuntary separations very carefully with a well-documented paper trail.

### Voluntary Separations

**voluntary separation**
A separation that occurs when an employee decides, for personal or professional reasons, to end the relationship with the employer.

**Voluntary separations** occur when an employee decides, for personal or professional reasons, to end the relationship with the employer. The decision could be based on the employee obtaining a better job, changing careers, or wanting more time for family or leisure activities. Alternatively, the decision could be based on the employee finding the present job unattractive because of poor working conditions, low pay or benefits, a bad relationship with a supervisor, and so on. In most cases, the decision to leave is a combination of having attractive alternatives and being unhappy with aspects of the current job.

Voluntary separations can be either *avoidable* or *unavoidable*. Unavoidable voluntary separations result from an employee's life decisions that extend beyond an employer's control, such as a spouse's decision to move to a new area that requires the employee to relocate. However, recent studies show that approximately 80 percent of voluntary separations are avoidable, and many of those are due to staffing mistakes. By investing in quality HRM recruiting, selection, training, and development programs (see Chapters 5 and 8), companies can avoid a poor match between the employee and the job.[13]

The two types of voluntary separations are quits and retirements.

**QUITS** The decision to *quit* depends on (1) the employee's level of dissatisfaction with the job and (2) the number of attractive alternatives the employee has outside the organization.[14] The employee can be dissatisfied with the job itself, the job environment, or both.

In recent years, some employers have been using pay incentives to encourage employees to quit voluntarily. Employers use these *voluntary severance plans*, or *buyouts*, to reduce the size of their workforce while avoiding the negative factors associated with a layoff. The pay incentive may amount to a lump-sum cash payment of six months to two years of salary, depending on the employee's tenure with the company and the plan's design.

**RETIREMENTS** A *retirement* differs from a quit in a number of respects. First, a retirement usually occurs at the end of an employee's career. A quit can occur at any time. (In fact, it is in the early stages of one's career that a person is more likely to change jobs.) Second, retirements usually result in the individual receiving retirement benefits from the organization. These may include a retirement income supplemented with personal savings and Social Security benefits. People who quit do not receive these benefits. Finally, the organization normally plans retirements in advance. HR staff can help employees plan their retirement, and managers can plan in advance to replace retirees by grooming current employees or recruiting new ones. Quits are much more difficult to plan for.

Most employees postpone retirement until they are close to 65 because that is the age at which they are entitled to Medicare benefits from the government (see Chapter 12).[15] Without these benefits, many workers would find it difficult to retire. It is illegal for an employer to force an employee to retire on the basis of age.

Many Fortune 500 companies have found *early retirement incentives* to be an effective way to reduce their workforces. These incentives make it financially attractive for senior employees to retire early. Along with buyouts, they are used as alternatives to layoffs because they are seen as a gentler way of downsizing. We discuss the management of early retirements in detail later in this chapter.

**involuntary separation**
A separation that occurs when an employer decides to terminate its relationship with an employee due to (1) economic necessity or (2) a poor fit between the employee and the organization.

## Involuntary Separations

An **involuntary separation** occurs when management decides to terminate its relationship with an employee due to (1) economic necessity or (2) a poor fit between the employee and the organization. Involuntary separations are the result of very serious and painful decisions that can have a profound effect on the entire organization and especially on the employee who loses his or her job.

Although managers implement the decision to dismiss an employee, the HR staff makes sure that the dismissed employee receives "due process" and that the dismissal is performed within the letter and the spirit of the company's employment policy. Cooperation and teamwork between managers and HR staff are essential to effective management of the dismissal process. HR staff can act as valuable advisers to managers in this arena by helping them avoid mistakes that can lead to claims of wrongful discharge. They can also help protect employees whose rights are violated by managers. There are two types of involuntary separations: discharges and layoffs.

**DISCHARGES** A *discharge* takes place when management decides that there is a poor fit between an employee and the organization. The discharge is a result of either poor performance or the employee's failure to change some unacceptable behavior that management has tried repeatedly to correct. Sometimes employees engage in serious misconduct, such as theft or dishonesty, which may result in immediate termination. Recently, employee use of social media has become the basis for employee discharges. The Manager's Notebook, "Social Media and Work Can Be a Terminal Mix," explores this practice.

Can using social media at work be a problem?
*Source:* © RTimages/Alamy.

Technology/Social Media

MANAGER'S NOTEBOOK

## Social Media and Work Can Be a Terminal Mix

Social media, such as Facebook and Twitter, have become integrated into our personal lives and have been adopted as routine tools by many people. For both individuals and organizations, social media offers many benefits, such as being able to immediately reach out and connect with friends or customers. However, casual use of social media by employees has probably caused heartburn for a number of managers and has definitely resulted in some employees being discharged. Consider the following examples of actual employee terminations.

- A flight attendant lost her job after posting suggestive pictures of herself in her company uniform.
- Two employees of a pizza chain franchise were terminated after posting a video on YouTube in which one put mucus on the food and the other put cheese up his nose.
- Thirteen Virgin Atlantic cabin crew members were terminated after the airline learned that the employees had posted inappropriate comments on Facebook about their employer and about their customers.
- An employee of a car dealership was fired after posting criticism on Facebook of the dealership's promotional event for including only water and hot dogs.

As the preceding examples illustrate, people have been fired due to their activity on social media. If you are like many college-age (18–24 years old) students, you might feel that employer monitoring of social media is inappropriate. However, employers have a right to protect themselves from defamation and from actions that might negatively impact the reputation of the business. Just where the legal line is regarding employee expectations of privacy and free expression in social media is something that will remain somewhat blurry until the legal framework evolves in this area. It is clear, though, that employers can't use social media information to discriminate, and there would probably be a lack of legal support to use such information for any purpose that is not strictly business related. Other than these broad prohibitions, it appears that use of social media can be a basis for employee termination.

From a management perspective, it is important to note that, at present, most employers do not have a policy regarding the use of social media. Developing a policy could clarify expectations and prevent problems. A couple of key issues that could be addressed in such a policy include:

- whether social media can be used during work hours.
- what is acceptable for an employee to post.

Clarity regarding these issues could provide guidance to employees and lower the chances of the employer having to discipline, or even terminate, someone for misuse of social media.

*Sources:* Based on Abril, P. S., Levin, A., and Del Riego, A. (2012). Blurred boundaries: Social media privacy and the twenty-first century employee. *American Business Law Journal*, *49*, 63–111; Cavico, F. J., Mujtaba, B. M., Muffler, S. C., and Samuel, M. (2013). Social media and employment-at-will: Tort law and practical considerations for employees, managers, and organizations. *New Media and Mass Communication*, *11*, 25–41; Field, J., and Chelliah, J. (2012). Social media misuse a ticking time-bomb for employers. *Human Resource Management International Digest*, *20*, 36–38; Jacobson, W. S., and Tufts, S. H. (2013). To post or not to post: Employee rights and social media. *Review of Public Personnel Administration*, *33*, 84–107. ■■

Managers who decide to discharge an employee must make sure they follow the company's established discipline procedures. Most nonunion companies and all unionized firms have a *progressive discipline procedure* that allows employees the opportunity to correct their behavior before receiving a more serious punishment. For example, an employee who violates a safety rule may be given a verbal warning, followed by a written warning within a specified period of time. If the employee does not stop breaking the safety rule, the employer may choose to discharge the employee. Managers must document the occurrences of the violation and provide evidence that the employee knew about the rule and was warned that its violation could lead to discharge. In this way, managers can prove that the employee was discharged for just cause. Chapter 14 details the criteria that managers can use to determine whether a discharge meets the standard of just cause.*

An example illustrates how costly discharging an employee can be if handled poorly or without due process. Sandra McHugh won $1.1 million in damages in an age discrimination lawsuit against her employer.[16] McHugh was forced out of her job because of her age—which was 42 at the time.

It is usually more involved than simply saying "You're fired!"
*Source:* Thinglass/Shutterstock.

**LAYOFFS** *Layoffs* are a means for an organization to cut costs. For example, the recent layoff announcement by Zynga, mentioned in the opening of this chapter, was based on financial considerations. Changes in online gaming and a reduction in revenues led Zynga to make the decision to let go hundreds of its employees.

A layoff differs from a discharge in several ways. With a layoff, employees lose their jobs because a change in the company's environment or strategy forces it to reduce its workforce. Global competition, reductions in product demand, changing technologies that reduce the need for workers, and mergers and acquisitions are the primary factors behind most layoffs.[17] In contrast, the actions of most discharged employees have usually been a direct cause of their separation. Although we can make these conceptual distinctions between a layoff and a discharge, the Zynga workers who endured being cut simply know that they lost their jobs, whatever the process is called.

Layoffs have a powerful impact on the organization. They can affect the morale of the organization's remaining employees, who may fear losing their own jobs in the future. In addition, layoffs can affect a region's economic vitality, hurting the merchants who depend on the workers' patronage to support their businesses. Layoffs can also affect the perceptions of the safety and security of an area.

Investors may be affected by layoffs as well. The investment community may interpret a layoff as a signal that the company is having serious problems. This, in turn, may lower the price of the company's stock on the stock market. Finally, layoffs can hurt a company's standing as a good place to work and make it difficult to recruit highly skilled employees who can choose among numerous employers.

**LAYOFFS, DOWNSIZING, AND RIGHTSIZING** Let's clarify the differences between a layoff, downsizing, and rightsizing. A company that adopts a **downsizing** strategy reduces the scale (size) and scope of its business to improve its financial performance.[18] When a company decides to downsize, it may choose layoffs as one of several ways of reducing costs or improving profitability.[19] In recent years many firms have done exactly this, but we want to emphasize that companies can take many other measures to increase profitability without resorting to layoffs.[20] We discuss these measures later in this chapter.

**downsizing**
A company strategy to reduce the scale (size) and scope of its business in order to improve the company's financial performance.

**Rightsizing** means reorganizing a company's employees to improve their efficiency.[21] An organization needs to rightsize when it becomes bloated with too many management layers or bureaucratic work processes that add no value to its product or service. For example, companies that reconfigure their frontline employees into self-managed work teams may find that they are overstaffed and need to reduce their headcount to take advantage of the efficiencies provided by the team structure. The result may be layoffs, but layoffs are not always necessary. As with downsizing, management may have several alternatives to layoffs available when it rightsizes its workforce. Whatever the label, the result of downsizing or rightsizing is that people are losing their jobs.

**rightsizing**
The process of reorganizing a company's employees to improve their efficiency.

Managing a layoff is an extremely complex process. Before we examine the specifics, however, we'll examine an important alternative: early retirements.

*In some jurisdictions, it is possible for management to discharge an employee based on evidence that does not meet the standard of just cause. However, the authors recommend meeting this standard as a good business practice.

## Managing Early Retirements

When a company decides to downsize its operation, its first task is to examine alternatives to layoffs. As we mentioned earlier, one of the most popular of these methods is early retirement.[22]

### The Features of Early Retirement Policies

Early retirement policies consist of two features: (1) a package of financial incentives that makes it attractive for senior employees to retire earlier than they had planned and (2) an *open window* that restricts eligibility to a fairly short period of time. After the window is closed, the incentives are no longer available.[23]

The financial incentives are usually based on a formula that accelerates senior employees' retirement eligibility and increases their retirement income. It is not unusual for companies to provide a lump-sum payment as an incentive to leave. Many companies also offer the continuation of health benefits so that early retirees enjoy coverage until they are eligible for Medicare at age 65.

Early retirement policies can reduce the size of a company's workforce substantially. For example, Progress Energy, a public utility company headquartered in Raleigh, North Carolina, had a stronger response to an early retirement program than was expected.[24] As a result, the company had to hire additional people to make up for the shortfall.

### Avoiding Problems with Early Retirements

When not properly managed, early retirement policies can cause a host of problems. Too many employees may take early retirement, the wrong employees may leave, and employees may perceive that they are being forced to leave, which may result in age discrimination complaints.

One way to avoid excess resignations is to restrict eligibility to divisions that have redundant employees with high levels of seniority (instead of making the policy available to all employees throughout the corporation). Another way is to ask senior employees how they would respond to a specific early retirement plan. If too many would leave, the incentives could be fine-tuned so that a controlled number of employees take early retirement.

Sometimes the most marketable employees with the best skills can easily find another job and decide to "take the money and run." To avoid this situation and keep its most valuable people, the company can develop provisions to hire back retired employees as temporary consultants until suitable replacements can be promoted, hired, or trained.

Early retirement programs must be managed so that eligible employees do not perceive that they are being forced to retire and consequently file age discrimination charges. Situations that could be interpreted as coercive include the following:

- A longtime employee who has performed satisfactorily over many years suddenly receives an unsatisfactory performance evaluation.
- A manager indicates that senior employees who do not take early retirement may lose their jobs anyway because a layoff is likely in the near future.
- Senior employees notice that their most recent pay raises are quite a bit lower than those of other, younger workers who are not eligible for early retirement.

A former employee who sued IBM for age discrimination was awarded $315,000 in compensatory damages because he convinced the jury that he was forced to take early retirement.[25] The employee introduced evidence showing that his job had been reclassified after he voiced some reservations about taking early retirement. Shortly after that, he claimed, he received a warning that his next performance evaluation would be unsatisfactory.

Managers can avoid lawsuits by following one simple guideline: All managers with senior employees should make certain that they do not treat senior employees any differently than other employees. HR staff members play an important role here by keeping managers aware of the letter and the spirit of the early retirement policy so that they do not (consciously or unconsciously) coerce senior employees during the open window period.

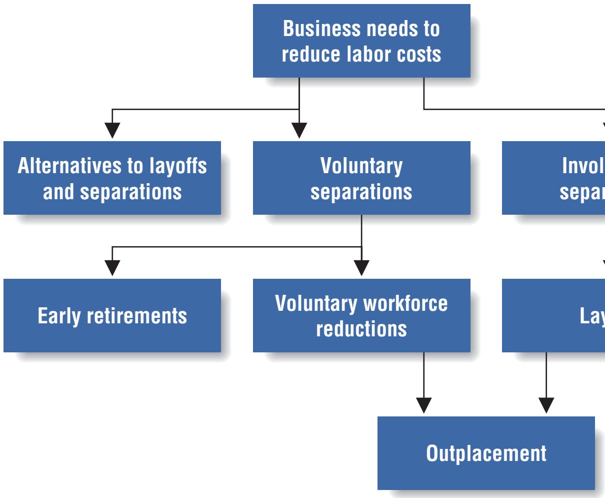


**FIGURE 6.3**
**The Layoff Decision and Its Alternatives**

# Managing Layoffs

Typically, an organization will institute a layoff when it cannot reduce its labor costs by any other means. Figure 6.3, which presents a model of the layoff decision and its alternatives, shows that there are alternatives to layoffs, such as early retirements and other voluntary workforce reductions, that managers can consider as means to reduce labor costs. After managers make the decision to implement a layoff, they must concern themselves with the outplacement of the former employees.

## Alternatives to Layoffs

Most organizations search for alternative cost-reduction methods before turning to layoffs. Attrition is a common strategy. Other approaches include freezing employment, not renewing contract workers, and encouraging employees to take time off voluntarily. Figure 6.4 shows the major alternatives to layoffs. These include employment policies, changes in job design, pay and benefits policies, and training. Managers can use these alternatives both to reduce labor costs and to protect the jobs of full-time employees.

**EMPLOYMENT POLICIES** The first alternatives to layoffs that managers are likely to consider are those that intrude the least on the day-to-day management of the business. These alternatives usually focus on adjustments to employment policies.

| Employment Policies | Changes in Job Design | Pay and Benefits Policies | Training |
|---|---|---|---|
| • Reduction through attrition | • Transfers | • Pay freeze | • Retraining |
| • Hiring freeze | • Relocation | • Cut overtime pay | |
| • Cut part-time employees | • Job sharing | • Use vacation and leave days | |
| • Cut internships or co-ops | • Demotions | • Pay cuts | |
| • Give subcontracted work to in-house employees | | • Profit sharing or variable pay | |
| • Voluntary time off | | | |
| • Leaves of absence | | | |
| • Reduced work hours | | | |

**FIGURE 6.4**
**Alternatives to Layoffs**

**attrition**
An employment policy designed to reduce the company's workforce by not refilling job vacancies that are created by turnover.

**hiring freeze**
An employment policy designed to reduce the company's workforce by not hiring any new employees into the company.

The least disruptive way to cut labor costs is through **attrition**. By not filling job vacancies that are created by turnover, firms can improve the bottom line. When greater cost reductions are needed, a **hiring freeze** may be implemented. Other employment policies aim to decrease the number of hours worked and, therefore, the number of hours for which the company must pay its employees. Workers may be encouraged to take voluntary (unpaid) time off or leaves of absence, or they may be asked to put in a shorter workweek (for example, 35 hours rather than 40).

The strategic application of employment policies to provide job security for a firm's full-time, core employees is called a *rings of defense* approach to job security. Under this approach, headcounts of full-time employees are purposely kept low. An increase in the demand for labor will be satisfied by hiring part-time and temporary employees or subcontracting work to freelancers. The advantage of this approach is that it provides some stability and security, at least for the core employees. This security can pay off in the form of workers who feel more comfortable and can, therefore, be more innovative—an important competitive characteristic in many industries. However, the increasing use of temporary, or contingent, workers as a strategy to smooth out variations in demand for labor means that more workers are vulnerable and treated as expendable by employers.

**CHANGES IN JOB DESIGN** Managers can use their human resources more cost-effectively by changing job designs and transferring people to different units of the company. Alternatively, they may relocate people to jobs in different parts of the country where the cost of living and salaries are lower. The cost of relocating an employee plus the fact that some employees do not want to move sometimes make this alternative problematic. Another practice, common in unionized companies, allows a senior employee whose job is eliminated to take a job in a different unit of the company from an employee with less seniority. This practice is called *bumping*.

Companies can also use *job sharing* (which we discussed in Chapter 2) when it is possible to reconfigure one job into two part-time jobs. The challenge here is to find two people willing to share the job's hours and pay. Finally, as a last resort, highly paid workers may be demoted to lower-paying jobs.

**A QUESTION OF ETHICS**
Is it ethical for top managers to receive cash bonuses while at the same time asking lower-level employees to accept a pay freeze?

**PAY AND BENEFITS POLICIES** As one way of reducing costs, managers can enforce a *pay freeze* during which no wages or salaries are increased. Pay freezes should be done on an across-the-board basis to avoid accusations of discrimination. These policies can be augmented by reductions in overtime pay and policies that ask employees to use up their vacation and leave days. Many state governments have enforced annual pay freezes on their employees. Unfortunately, pay freezes often cause some top-performing, highly marketable employees to leave the company.

A more radical and intrusive pay policy geared toward reducing labor costs is a *pay cut*. This action can be even more demoralizing to the workforce than a pay freeze and should be used only if employees are willing to accept it voluntarily as an alternative to layoffs. Unions in several U.S. industries have accepted wage reductions in return for job security.

A long-term pay policy that may protect workers from layoffs structures compensation so that profit sharing (the sharing of company profits with employees) or variable pay (pay contingent on meeting performance goals) makes up a significant portion of employees' total compensation (around 15 to 20 percent). When the business cycle hits a low point, the company can save up to about 20 percent of the payroll by not paying out profit sharing or variable pay, but still retain its employees by paying them the salary portion of their total compensation. Few companies in the United States use this approach, but it is very common in Japan.

**TRAINING** By retraining employees whose skills have become obsolete, a company may be able to match newly skilled workers with available job vacancies. Without this retraining, the workers might have been laid off. For example, IBM has retrained some of its production workers in computer programming and placed them in jobs requiring this skill.

## Implementing a Layoff

Once the layoff decision has been made, managers must implement it carefully. A layoff can be a traumatic event that affects the lives of thousands of people. The key issues that managers must settle are notifying employees, developing layoff criteria, communicating to laid-off employees, coordinating media relations, maintaining security, and reassuring survivors of the layoff.

**NOTIFYING EMPLOYEES** The **Worker Adjustment and Retraining Notification Act (WARN)** requires U.S. employers with 100 or more employees to give 60 days' advance notice to employees who will be laid off as a result of a plant closing or a mass separation of 50 or more workers.[26] This law, passed in 1988, was designed to give workers more time to look for a new job. Employers who do not notify their employees must give them the equivalent of 60 working days of income. Employers who lay off fewer than 50 employees have greater flexibility as to when they can notify the affected employees.

There are several arguments in favor of giving at least several weeks' notice before a layoff. It is socially and professionally correct to extend employees this courtesy. Also, this treatment is reassuring to the employees who will remain with the company. But there are also arguments in favor of giving no notification. If the labor relations climate is poor, there is the potential for theft of or sabotage to company equipment. In addition, the productivity of employees who are losing their jobs may decline during the notice period.[27]

**Worker Adjustment and Retraining Notification Act (WARN)**
A federal law requiring U.S. employers with 100 or more employees to give 60 days' advance notice to employees who will be laid off as a result of a plant closing or a mass separation of 50 or more workers.

**A QUESTION OF ETHICS**
How much notice of a layoff should a company be obligated to give?

**DEVELOPING LAYOFF CRITERIA** The criteria for dismissal must be clear. When the criteria are clearly laid out, the managers responsible for determining who will be laid off can make consistent, fair decisions. The two most important criteria used as the basis for layoff decisions are seniority and employee performance.

*Seniority*, the amount of time an employee has been with the firm, is by far the most commonly used layoff criterion. It has two main advantages. First, seniority criteria are easily applied; managers simply examine all employees' dates of hire to determine the seniority of each (in years and days). Second, many employees see the seniority system as fair because (1) managers cannot play "favorites" under a seniority-based decision and (2) the most senior employees have the greatest investment in the company in terms of job rights and privileges (they have accrued more vacation and leave days and have more attractive work schedules, for example).

There are disadvantages to using the "last in, first out" method, however. The firm may lose some top performers, as well as a disproportionate number of women and minorities—who are more likely to be recent hires in certain jobs. Nonetheless, the courts have upheld seniority as the basis for layoff as long as all employees have equal opportunities to obtain seniority.

When the workforce is unionized, layoff decisions are usually based on seniority. This provision is written into the labor contract. However, when the workforce is nonunion, and especially when cuts must be made in professional and managerial employees, it is not unusual for companies to base layoff decisions on performance criteria or on a combination of performance and seniority. Using performance as the basis for layoffs allows the company to retain its top performers in every work unit and eliminate its weakest performers. Unfortunately, performance levels are not always clearly documented, and the company may be exposed to wrongful discharge litigation if the employee can prove that management discriminated or acted arbitrarily in judging performance. Because of these legal risks, many companies avoid using performance as a basis for layoff.

If a company has taken the time to develop a valid performance appraisal system that accurately measures performance and meets government guidelines, then there is no reason why appraisal data cannot be used as the basis for layoff. When using this criterion, managers should take the employee's total performance over a long period of time into account. Managers who focus on one low performance appraisal period and ignore other satisfactory or exceptional performance appraisals could be viewed as acting arbitrarily and unfairly. We discuss this topic in detail in the next chapter.

**COMMUNICATING TO LAID-OFF EMPLOYEES** It is crucial to communicate with the employees who will be laid off as humanely and sensitively as possible. No employee likes being told he or she will be discharged, and the way a manager handles this unpleasant task can affect how the employee and others in the organization accept the decision.

Laid-off employees should first learn of their fate from their supervisor in a face-to-face private discussion. Employees who learn about their dismissal through a less personal form of communication (for example, a peer or a memo) are likely to be hurt and angry. The information session between supervisor and employee should be brief and to the point. The manager should express appreciation for what the employee has contributed, if appropriate, and explain how much severance pay and what benefits will be provided and for how long. This information can be repeated in greater detail at a group meeting of laid-off employees and should be documented in a written pamphlet handed out at the meeting.

An argument can be made that the best time to hold the termination session is in the middle of the workweek. It is best to avoid telling workers they are being laid off during their vacation or right before a weekend, when they have large blocks of time on their hands.[28]

One example of how *not* to communicate a layoff is provided by the following example: A petroleum company brought employees together for a rather unsettling meeting. Each employee was given an envelope with the letter *A* or *B* on it. The A's were told to stay put while the B's were ushered into an adjacent room. Then, en masse, the B's were told that they were being laid off.

**COORDINATING MEDIA RELATIONS** Rumors of an impending layoff can be very dangerous to the workforce's morale as well as to the organization's relationships with customers, suppliers, and the surrounding community. Top managers, working with HR staff members, should develop a plan to provide accurate information about the layoff to external clients (via the media) as well as the workforce (via internal communications).[29] In this way, managers can control and put to rest rumors that may exaggerate the extent of the firm's downsizing efforts. It is also important that direct communication take place with the employees directly affected by the layoff *and* the surviving employees and that all communication be coordinated with press releases to the media. In addition, HR staff must prepare to answer any questions that employees or the media may have regarding outplacement, severance pay, or the continuation of benefits.

**MAINTAINING SECURITY** In some situations, a layoff may threaten company property. Laid-off employees may find themselves rushed out of the building, escorted by armed guards, and their personal belongings delivered to them later in boxes. Although such treatment may seem harsh, it may be necessary in certain industries (such as banking and computer software), where sabotage could result in substantial damage.

For instance, Timothy Lloyd worked for Omega Engineering, Inc., a company that designs and manufactures instruments and process control devices. After he was dismissed but before his last day at the company, Lloyd allegedly set a "program bomb" in the company's computer system. About two weeks after his last day, the bomb deleted key files from Omega's database, resulting in $10 million in damage. Al DiFrancesco, Omega's director of human relations, noted that the company could have avoided the problem with better security, but "hindsight is 20/20 . . ." As a result of the damage, Omega tightened its security policies and procedures to safeguard against disgruntled employees.[30]

In most cases, security precautions are probably not necessary when implementing a layoff, and using armed guards and other heavy-handed tactics will only lead to hard feelings and resentment. Treating laid-off employees with dignity and respect generally reduces the potential for sabotage.

**REASSURING SURVIVORS OF THE LAYOFF** On paper, a layoff may have the positive effect of reducing labor costs and restoring financial balance to an organization. As a practical reality, layoffs can have some negative effects on the organization. The Manager's Notebook, "Effects of Layoffs on Survivors" considers the possible negative impacts of a layoff. It is important to be aware of the negative fallout that can happen following a layoff. As a manager, if you are aware of these downsides, you can take steps to lower or eliminate their occurrence. The Manager's Notebook, "Survivor Management 101," addresses some of the basic steps you can take as a manager to lessen the negative effects of a layoff on the surviving workers.

**MANAGER'S NOTEBOOK**

Ethics/Social Responsibility

## Effects of Layoffs on Survivors

Those workers who survived a layoff might be considered the lucky ones. However, research has found that layoffs can have a number of negative effects on those who got to keep their jobs. Some of the negative effects on survivors can include:

- Increased absenteeism and turnover.
- Lower productivity and poorer job satisfaction.
- Increased sabotage.

Why such negative effects from people who should feel lucky that they didn't lose their jobs? When you consider the situation, the negative impacts may make more sense. Consider, for example, that when labor is reduced through a layoff, the amount of work that is expected to be done often stays the same. The layoff survivors have more to do. A layoff can also make clear to remaining workers that they are dispensable and their jobs could be on the chopping block next. It's little wonder that the "lucky" layoff survivors can experience negative effects.

*Sources:* Based on Cotter, E. W., and Fouad, N. A. (2012, November 27). Examining burnout and engagement in layoff survivors: The role of personal strengths. *Journal of Career Development*, published online; Long, B. S. (2012). The irresponsible enterprise: The ethics of corporate downsizing. *Critical studies on Corporate Responsibility, Governance, and Sustainability*, *4*, 295–315; Sobieralski, J., and Nordstrom, C. R. (2012). An examination of employee layoffs and organizational justice perceptions. *Journal of Organizational Psychology*, *12*, 11–20.

**MANAGER'S NOTEBOOK**

Customer-Driven HR

### Survivor Management 101

What can you do as a manager to minimize the negative effects of a layoff on the surviving workers? Jobs, of course, still need to be done and products or services need to be provided to customers. In the wake of a layoff, what steps can you take to help assure that morale stays as positive as possible and that work continues to be done as well as possible? The following are some suggestions to help you keep up the morale of your surviving employees.

- ***Provide clear communication about the layoff*** Surviving workers are more likely to remain positive about their organization and job if they understand why people were laid off and how. If people understand why the layoff was needed and they think the process of how people were let go was fair, they can move forward with a positive attitude. As a manager, you need to make sure, as best as possible, that your surviving employees have an understanding of the layoff process.
- ***Mark the occasion*** Ignoring a layoff will not make it go away. Having an event or gathering regarding a negative outcome, such as a layoff, can give people a transition point. Whether you hold a formal meeting to discuss the layoff or have an informal get-together, you can be providing people some closure that will help them to put that chapter behind them. Without some transition or closure point, people can continue to look back rather than adapt and move forward.
- ***Listen to your workers*** A layoff is something that the surviving workers didn't have control over. They may feel that other arbitrary treatment may also be in store for them. It is important to assure your workers that their input is heard and that they will have input into the work processes in the new work environment.

*Sources:* Based on Bies, R. J. (2013). The delivery of bad news in organizations: A framework for analysis. *Journal of Management*, *39*, 136–162; Dierendonck, D. V., and Jacobs, G. (2012). Survivors and victims, a meta-analytical review of fairness and organizational commitment after downsizing. *British Journal of Management*, *23*, 96–109.

## Outplacement

As we mentioned at the beginning of this chapter, outplacement is an HR program created to help separated employees deal with the emotional stress of job loss and to provide assistance in finding a new job.[31] Outplacement activities are often handled by consulting firms retained by the organization, which pays a fee based on the number of outplaced employees. Companies are often willing to pay for outplacement because it can reduce some of the risks associated with layoffs, such as negative publicity or an increased likelihood that unions will attempt to organize the workforce.[32] Employers who provide outplacement services tend to give the goal of social responsibility a high priority as part of their HR strategy.

### The Goals of Outplacement

The goals of an outplacement program reflect the organization's need to control the disruption caused by layoffs and other employee separations. The most important of these goals are (1) reducing the morale problems of employees who are about to be laid off so that they remain productive until they leave the firm, (2) minimizing the amount of litigation initiated by separated employees, and (3) assisting separated employees in finding comparable jobs as quickly as possible.[33] In addition, providing an outplacement service can help keep the remaining employees focused on their work. Without outplacement, a natural tendency for remaining workers would be to concentrate on how their former coworkers were treated badly and didn't find jobs, rather than concentrate on moving the organization forward.[34] Overall, providing outplacement can protect an employer's reputation and help the organization be known as an employer of choice.

### Outplacement Services

The most common outplacement services are emotional support and job-search assistance. These services are closely tied to the goals of outplacement.

**EMOTIONAL SUPPORT** Outplacement programs usually provide counseling to help employees deal with the emotions associated with job loss—shock, anger, denial, and lowered self-esteem. Because the family may suffer if the breadwinner becomes unemployed, sometimes family members are also included in the counseling as well.[35] Counseling also benefits the employer because it helps to defuse some of the hostility that laid-off employees feel toward the company.

**JOB-SEARCH ASSISTANCE** Employees who are outplaced often do not know how to begin the search for a new job. In many cases, these people have not had to look for a job in many years.

An important aspect of this assistance is teaching separated employees the skills they need to find a new job. These skills include résumé writing, interviewing and job-search techniques, career planning, and negotiation skills.[36] Outplaced employees receive instruction in these skills from either a member of the outplacement firm or the HR department. In addition, the former employer sometimes provides administrative support in the form of clerical help, phone answering, access to e-mail, and fax services.[37] These services allow laid-off employees to use computers to prepare résumés, post résumés on the Web or send them via fax and e-mail, and to use copiers to copy résumés.

## Summary and Conclusions

### What Are Employee Separations?

Employee separations occur when employees cease to be members of an organization. Separations and outplacement can be managed effectively. Managers should plan for the outflow of their human resources with thoughtful policies. Employee separations have both costs and benefits. The costs include (1) recruitment costs, (2) selection costs, (3) training costs, and (4) separation costs. The benefits are (1) reduced labor costs, (2) replacement of poor performers, (3) increased innovation, and (4) the opportunity for greater diversity.

### Types of Employee Separations

Employees may leave either voluntarily or involuntarily. Voluntary separations include quits and retirements. Involuntary separations include discharges and layoffs. When an employee is forced to leave involuntarily, a much greater level of documentation is necessary to show that a manager's decision to terminate the employee was fair.

### Managing Early Retirements

When downsizing an organization, managers may elect to use voluntary early retirements as an alternative to layoffs. Early retirement programs must be managed so that eligible employees do not perceive that they are being forced to retire.

### Managing Layoffs

Layoffs should be used as a last resort after all other cost-cutting alternatives have been exhausted. Important considerations in developing a layoff policy include (1) notifying employees, (2) developing layoff criteria, (3) communicating to laid-off employees, (4) coordinating media relations, (5) maintaining security, and (6) reassuring survivors of the layoff.

### Outplacement

No matter what policy is used to reduce the workforce, it is a good idea for the organization to use outplacement services to help separated employees cope with their emotions and minimize the amount of time they are unemployed.

## Key Terms

attrition, 220
downsizing, 217
employee separation, 210
exit interview, 213
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involuntary separation, 215
outplacement assistance, 213
rightsizing, 217
turnover rate, 210
voluntary separation, 214
Worker Adjustment and Retraining Notification Act (WARN), 221

## Watch It!

***Gordon Law Group: Employee Separation.*** If your instructor has assigned this, go to **mymanagementlab.com** to watch a video case and answer questions.

## Discussion Questions

6-1. Following a series of acquisitions, a company has looked at its pool of employees and geographical locations. In order to cut costs and streamline operations, largely by merging finance and administration, HR and other support services, three remote locations are to be closed over the course of the next six months. The company recognizes that there will be unavoidable separation costs, but also wants to be seen to be doing the right thing. What is the value of additional efforts to support employees who will have little option other than to leave the company? The company has a tried and tested severance pay package in place, so why is it necessary to offer something more than this?

6-2. The Manager's Notebook, "Voluntary Turnover in China," addresses the high rate at which workers in China have been choosing to quit their jobs. Do you think voluntary turnover is becoming more of an issue in the United States? If you are a manager, do you think that voluntary turnover is an issue? How would you deal with it?

6-3. Would an employer ever want to increase the rate of employee turnover in a company? Why or why not?

6-4. In an age when more and more companies are downsizing, an increasingly important concept is the "virtual corporation." The idea is that a company should have a core of owners and managers, but that, to the greatest degree possible, workers should be contingent—temporary, part-time, or on short-term contracts. This gives the corporation maximum flexibility to shift vendors, cut costs, and avoid long-term labor commitments. What are the advantages and disadvantages of the virtual corporation from the points of view of both employers and the workers?

6-5. Under what circumstances might a company's managers prefer to use layoffs instead of early retirements or voluntary severance plans as a way to downsize the workforce?

6-6. Under what set of conditions should a company lay off employees without giving them advance notice?

6-7. Carrying out terminations usually is the responsibility of the manager. However, the manager may not always be involved in determining who should be let go. Do you think direct managers should have input into which of their workers should be laid off? Why or why not? If a manager and HR staff disagrees on who should be laid off, how do you think the disagreement should be resolved?

6-8. Managing survivors in a layoff is important. As a manager, what concerns would you have about the surviving workforce after a layoff? How can the HR management staff be of assistance in providing support for the survivors to a layoff?

6-9. Why should management be concerned with helping employees retire from their organization successfully?

6-10. The departure of senior workers through retirement can mean that years of experience and knowledge are walking out an organization's doors. This "brain drain" can cripple an organization's ability to remain competitive, particularly if it is difficult to regularly hire younger talent. What approaches would you recommend to reduce this problem?

6-11. You have noticed that the overall turnover rate for your company is about average for your industry. Does this average rate mean their turnover isn't a problem? Considering the source and type of turnover discussed in Exhibit 6.1, describe how this average rate might or might not indicate a problem.

## MyManagementLab®

If your instructor has assigned this, go to **mymanagementlab.com** for the following Assisted-graded writing questions:

**6-12.** Employees have been terminated due to their postings on social media. Do you think that social media postings should be a cause for termination? Are there circumstances that might make termination a more justifiable management action? For example, what if the postings are critical of the company? Describe.

**6-13.** Can employee turnover be a good thing? Explain. When is employee turnover a bad thing?

**6-14.** Survivors of layoffs might be considered the lucky ones who still have a job. However, layoff survivors can present a number of problems. What kind of problems might you expect layoff survivors to exhibit? Assuming a layoff of workers is a necessity, what would you recommend be done to lessen problems associated with layoff survivors?

## You Manage It! 1: Global

### Turnover: A Global Management Issue

As discussed in the Manager's Notebook, "Voluntary Turnover in China," voluntary turnover is a problem faced by organizations in China. This turnover is particularly a problem in management-level positions and in areas such as sales, marketing, and human resources. The issue is expected to continue, even though the growth in the Chinese economy may be slowing.

Facing voluntary turnover is a problem in more areas than China. For example, companies in India face high levels of voluntary turnover. The common element to the level of voluntary turnover is a demand for labor that exceeds the supply. The demand creates job opportunities for the too-few employees who have the desired competencies.

### Critical Thinking Questions

6-15. What steps do most companies take to reduce voluntary turnover? Are they effective?

6-16. Do you think the voluntary turnover rate in an area should be considered before opening a business operation there? Why?

6-17. A company discovers that a poorly performing factory has a significant level of voluntary turnover compared to other locations. The company is not sure if it is a symptom of poor management or something else. Is there an optimal voluntary turnover rate and what are the costs and benefits of it?

### Team Exercise

6-18. As a team, identify the steps you could take as managers to reduce the problem of high voluntary turnover you face in an overseas operation. For example, you could use domestic workers for the operation or you could increase the wage rate offered in your foreign operation. What are the advantages and disadvantages of these and other actions you could take?

## Experiential Exercise: Team

6-19. As a team, consider the following situation and then outline an action plan as to how you would propose to deal with it. Your company has traditionally had a young employee profile. As a retailer catering for the late teen market, your sales force has always reflected this fact. However, it has meant, over the past ten years, an average voluntary turnover rate of 43 percent. Last year that rocketed to 58 percent. Sales are falling, customer satisfaction has dropped, and supervisors and managers (mainly in their 30s) report having to spend 60 percent of their time recruiting and training. This leaves little time for marketing initiatives.

## Experiential Exercise: Individual

6-20. Where there is high voluntary turnover, managers often face difficulty in finding replacement workers. If you are a manager in a high–voluntary turnover situation and one of your workers decides to leave, you will likely find yourself on the market, fighting to replace the talent that just left. A high–voluntary turnover problem also usually means difficulty in finding and hiring replacements.

a. An alternative to trying to hire scarce talent is to grow your own. That is, an organization may decide to provide training and development opportunities to current workers in order to development needed talent. What are the advantages and disadvantages of this approach?

b. Do you think internal development of talent would also have an effect on voluntary turnover? Why? What would be the downside?

c. Do you know of or can you locate any companies that focus on internal development? Does it seem to be effective? Share your conclusions and findings with the rest of the class.

*Source:* Based on Huang, J. (2013). Developing local talent for future leadership. *The China Business Review*, *40*, 28–30; Sanchez-Arias, F., Calmeyn, H., Driesen, G., and Pruis, E. (2013). Human capital realities pose challenges across the globe. *T & D*, *67*, 32–35; Silva, J. D. (2012). The war for talent in China. *Ivey Business Journal Online*, retrieved on June 9, 2013 from Proquest.

# You Manage It! 2: Ethics/Social Responsibility

### Employment-at-Will: Fair Policy?

As an employee, you have the right to quit your job, right? The policy of employment-at-will (see Chapter 14) gives a similar right to employers to end the employment relationship. The rationale behind employment-at-will is that if an employee can quit at any time and for any reason, so, too, should an employer be free to end the employment relationship at any time and for any reason. A practical implication of this common-law doctrine is that employees can't be sued by employers for leaving, even if their departure disrupts the workplace. Likewise, the employer cannot be held responsible for terminating the employee.

However, there are exceptions to the employment-at-will policy. For example, an employer cannot terminate an employee for refusing to engage in an illegal act or because of the employee's race or gender. Another limitation is that employment-at-will applies only when there is not some sort of agreement, understanding, or contract between the employer and employee about the duration or permanence of employment. For example, an employee who has an employment contract can sue the employer for breach of contract if termination violates the terms of the contract. Likewise, a terminated employee may be able to convince the court that he or she wasn't an at-will employee because of an implied contract formed by statements in the employee handbook. For example, a handbook might offer the positive and supportive statement that as long as you perform, you have a job with the organization. This sort of statement could be viewed as implying permanence of the employment relationship, at least as long as performance is satisfactory.

## Critical Thinking Questions

6-21. Do you agree with the concept of employment-at-will? Why or why not?

6-22. If you had a choice, would you rather be employed as an at-will employee or have some employment protection? Why?

6-23. Most workers are not covered by explicit or implicit contracts and are at-will employees. Thus, an employer should be able to terminate these workers at any time and for any reason. A practical reality, however, is that a charge of discrimination as a basis for a termination needs to be defended against. How can an employer defend against a charge that a termination decision was based on discrimination? Does this limit an employer's right to fire-at-will? Explain.

## Team Exercise

6-24. Exceptions to employment-at-will vary by state. As a team, choose a state and use the Internet to research the exceptions to employment-at-will there. Report your findings to the class.

a. As a class, identify which states seem most and least employer-friendly with regard to these exceptions.

## Experiential Exercise: Team

6-25. Two small groups will be formed to represent pro and con employment-at-will positions. The two groups should debate the merits of the employment-at-will policy. Each team has five minutes to make its major statement in support of or against the policy. Issues that might be considered include ethical treatment, balance of power between employer and employee, and cost of litigation. Each team has an opportunity to rebut and rejoin. The instructor mediates the debate. The major issues and positions will be summarized in the class following the debate.

*Sources:* Based on Grossenbacher, K. (2005, April 11). What happened to "at will"? *Podium, 26,* 26; Knight, D. (2005, April 8). Understanding employment-at-will. *Kansas City Daily Record.*

## You Manage It! 3: Customer-Driven HR

### From Turnover to Retention: Managing to Keep Your Workers

Turnover is costly for organizations. In addition to the direct costs of recruiting, hiring, and training new talent, turnover can have negative effects that can be difficult to quantify. The loss of front-line employees, for example, can have a negative effect on customer service and can reduce the morale of remaining employees. In addition, employee turnover can result in a loss of expertise and knowledge that is critical to the operation.

One way to reduce turnover is to approach the issue from the perspective of what can be done to get employees to stay. The employee-equity model provides a framework for addressing strategies for increasing employee retention.

As shown in the "Employee Equity Model" graphic, the employee-equity model indicates that employee retention is a function of three equity levels: value, brand, and retention. Value equity is the employees' perception of the employment exchange. It is the fairly objective assessment of the costs and benefits of the job. For example, how does the pay measure up against the effort and difficulty of performing the job? Although working conditions are a central value-equity concern, convenience can also be a factor. For example, the worker's value-equity assessment might be affected negatively if the job is located in an area that is difficult to reach or the hours of the job are difficult to accommodate. Brand equity is a more subjective emotional assessment of an organization's desirability. In making a brand-equity assessment, a worker might consider how the employer treats workers, the organization's culture, and how it approaches ethics. Brand equity reflects the extent to which a worker is happy, or even proud, to be working for the organization. Retention equity is the worker's perceived benefit of staying with the organization. Key factors in retention-equity assessments are seniority and pension plans. Other factors that can influence retention equity are the opportunities in the organization for development and for career advancement. In addition, the extent to which organizational members have a sense of community can influence retention equity levels.

### Critical Thinking Questions

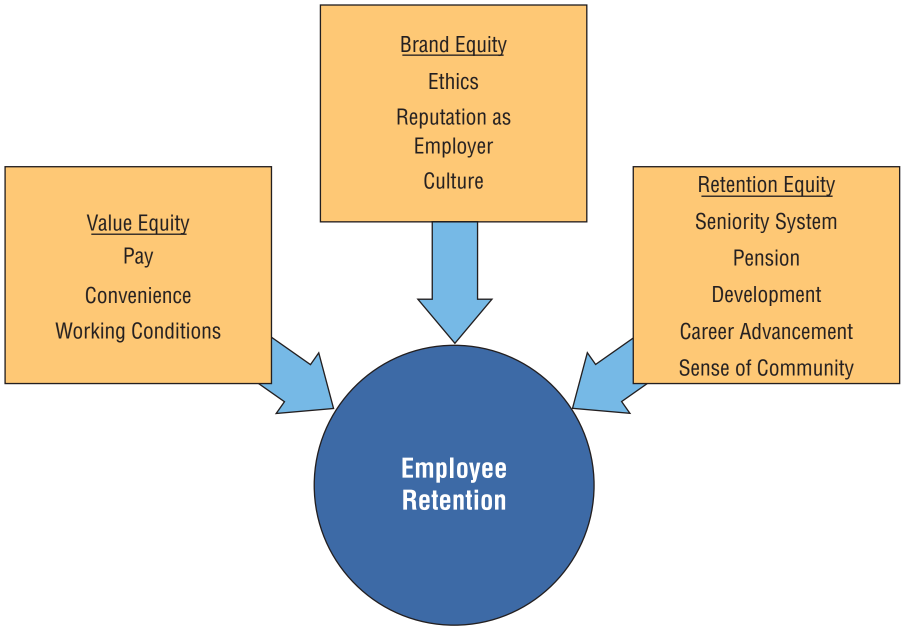
6-26. The employee-equity model provides value, brand, and retention equity perceptions as important determinants of whether an employee stays with an organization. Do you think that the three components are independent, or do they influence each other? Is this a problem for managing retention with the employee equity model? Why or why not?

6-27. How would you measure value, brand, and retention equity in an organization? How often do you think the three characteristics should be measured?

6-28. Given your response to item 2, how would these measures be useful? What could they be used for?

6-29. Value, brand, and retention characteristics could be used as criteria, or standards, for assessing management programs and actions. For example, consider recruitment and/or performance appraisal. If you were trying to maximize employee retention, how might you go about recruitment or performance appraisal so that value, brand, or retention equity is influenced positively?

Employee Equity Model



## Team Exercise

6-30. The things that might lead a person to quit might not be the same things that lead a person to stay with an organization. For example, another job offer or the tendency to always be looking for new opportunities elsewhere can lead a person to quit.
  a. Using the employee equity framework, identify the types of things that the organization could do to improve retention. Organize these actions or programs according to whether the primary focus is on improving value, brand, or retention equity.
  b. What is the management advantage of focusing on these retention efforts? That is, instead of focusing on why someone quits, why focus on retention?

## Experiential Exercise: Team

6-31. Divide the team into three groups. Each group will choose value, brand, or retention equity. Or, if team sizes are smaller, each team will select an equity component. For each equity component, generate survey items or interview questions that would measure that form of equity. For each item or question, identify organizational characteristics or management actions that would maximize the measure. Share your measures and proposed management actions with the rest of the class.

## Experiential Exercise: Individual

6-32. Generate survey or interview items that would capture value-, brand-, or retention-equity levels in workers. If possible, ask a sample of your friends and neighbors to take a survey based on your items. Are value, brand, and retention equities high or low? For low levels, ask your survey respondents what they think their employers could do to improve these levels.
  a. Are there differences among groups of employees in terms of the importance placed on value, brand, or retention equity? For example, might production, sales, and staff workers weigh the three equity components differently? If so, identify the component that you think would be most important for each group. How might differentiating among groups of employees in terms of the importance placed on the three equity components be useful to management? Share your findings and conclusions with the rest of the class.

*Sources:* Cardy, R. L., and Lengnick-Hall, M. (2011). Will they stay or will they go? Exploring a customer-oriented approach to employee retention. *Journal of Business and Psychology*, *26*, 213–217; Cardy, R. L., (2012, December). Performance management: Managing for retention. Featured article in *Personnel Testing Council of Metropolitan Washington Newsletter, VIII*(4), 4–7; Rust, R. T., Ziethaml, V. A., and Lemon, K. N. (2000). *Driving customer equity: How customer lifetime value is reshaping corporate strategy*. New York: Free Press.

# You Manage It! 4: Technology/Social Media

### You're Fired!

On *The Apprentice* television show, Donald Trump has made the statement "You're fired!" part of the entertainment. The reality in the workplace, however, is that having to let someone go is not easy and far from entertaining. Nonetheless, it is sometimes necessary. The use of social media has dramatically increased, and it has increasingly become a basis for employee terminations.

The use of social media isn't, of course, illegal. People have, nevertheless, gotten themselves into trouble at work with the use of social media. Common issues that can lead to termination include the sharing of inappropriate material and the inappropriate use of company equipment. Consider the following scenarios:

- George has been a valuable employee and Lori has been working hard to make sure he stays with the company. One of her fellow managers just informed Lori that he entered George's office and found him watching a revealing video. George apologized to the manager, quickly shut it off, and explained that it was a personal video sent to him by a friend. The manager described the video to Lori as being pornographic. The manager told Lori that something had to be done, and that type of behavior didn't fit with the company culture and couldn't be tolerated.
- Don is a supervisor and had two of his workers in his office. He had called them into his office to ask if the story he had heard was true. What Don had heard was that one of the workers had taken a picture of a female colleague when she was bent over a piece of equipment. The photo revealed the female worker's underwear. The two workers had apparently distributed the photo by posting it on their Facebook pages and sending links to other workers.
- A manager was at a company party and left his phone on a table while he left to use the restroom. Some of his workers at the party thought it would be funny to use his phone to post some critical comments about the company. Unfortunately, the manager had not exited from a social media page. At the time, the workers thought it was a hilarious prank, but upper management didn't see the humor in it.

The preceding types of incidents have led to people losing their jobs.

## Critical Thinking Questions

6-33. Do you think terminations for the types of incidents presented here are fair? Why or why not?
6-34. Assume that the employees or managers in each of the scenarios perform at an above-average level. Should that matter in the decision to terminate or not terminate? Why or why not?
6-35. How could these social media–driven issues be prevented? Are there steps that you, as a manager, could take that would prevent these issues from happening in the first place?

## Team Exercise

6-36. Many private companies do not have a policy regarding the use of social media. As a team, identify why a social media policy would be useful.

a. Draft an ideal social media policy. What are its key characteristics? For example, would your policy ban any use of social media during working hours? How would inappropriate postings be treated? Share your policy and why it would be useful with the rest of the class.

## Experiential Exercise: Team

6-37. Telling someone that they are being terminated can be a difficult and emotionally draining task. Using any of the scenarios presented in this case, or other relevant scenarios of your choosing, role-play terminating someone for inappropriate use of social media. One member of your team should take on the role of manager and another member takes on the role of the employee being terminated. Other team members should observe the interaction and provide feedback to the person playing manager about how the interaction went and how it might be improved.

## Experiential Exercise: Individual

6-38. Many companies do not have a policy regarding the use of social media. Identify why such a policy would be useful if an employee disputed a social media–based termination. Conducting an Internet search, can you locate social media policies used by companies? Are there common features of these policies? As a manager, which parts of such policies would you find most useful?

# Endnotes

Scan for Endnotes or go to http://www.pearsonglobaleditions.com/Gomez-Mejia.