



ADVISORY

MANAGING CHANGE IN UNCERTAIN TIMES

Human Resources

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When our beloved 25-year Warehouse Manager was diagnosed with lung cancer and died within six weeks, the number of work-related injuries increased 25% during the next three months. The reason was obvious. Gone was the predictable, soft-spoken mentor they completely trusted. The new manager had been the Assistant Manager for five years, but the employees were not ready to accept him in the top job. The sudden change came too quickly and without enough time to prepare them psychologically. They needed time to grieve.

Whether you manage a 25-person or a 25,000-person company, the impact of change is the same. Contrary to the generally accepted belief that older workers are change resistant and younger workers are change focused, research has shown it's just not true. Consulting group **Wilson Wyatt** surveyed all four generations in the workplace to see what they want, and it was discovered that no one likes change. Human beings want predictability, whether it's how a supervisor reacts in a crisis or how their car performs on the highway. Sudden change creates insecurity, even fear.

The current economic condition has brought about the need for change, and in some cases just to survive. But change must not be reactionary; it must be carefully planned. There are operational issues, marketing issues, financial issues, and employee issues. The long-term viability of the business can depend on how change is managed.

As it relates to employees, there are financial issues, legal issues, and emotional issues, especially employee morale. Management must be educated on how employees react to

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August 2008

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change in order to reduce the chaos that can follow. Legal problems can be ominous. What managers say and what they do is absolutely critical. They need to understand how people respond to loss. This is especially true when considering layoffs. Whether the employee is one of those being laid off or one of those retained, the emotional reaction is the same. They will grieve because they have suffered a loss. They will grieve in the same way as they would over the death of the Warehouse Manager or the death of a family member.

To understand grieving, let's take a lesson from **Elizabeth Kübler-Ross'** book *On Death and Dying* because it is generally agreed all losses result in grieving. The grieving process occurs in stages.

Shock and Denial – *"I don't believe it." "It can't be happening to me." "They'll figure something out so people won't have to be laid off."* Once reality sets in they move to stage two.

Anger – The most famous mantra is: *"It is not fair,"* followed quickly by, *"They will be sorry."* For some employees, the anger stage is never resolved. These are the employees who will sue you, shoot you, sabotage your business, and retaliate in every way possible. They can be vindictive and mean-spirited because they internalize the change and it becomes a personal affront. It's during this stage that management is vulnerable.

Bargaining – *"Why not reduce the hours for all of us so no one gets laid off?" "Why not reduce the costs of the salespeople who spend a fortune entertaining customers?"*

Depression – *"It's only going to get worse; next, I will lose my house." "All of you will be next."*

Acceptance – *"I know it's not your fault; I just have to get my head straight and plan."* Grieving cannot be avoided by those who go or who stay. Those who stay may feel guilty because they still have a job. They can be like a cancer survivor who asks *"Why not me; am I next?"* Not every employee goes through each stage. Some employees get stuck at one stage and never move on. Unfortunately, the worst nightmare is the employees who are stuck in the Anger Stage.

There are many actions management can take to increase the probability that changes can be implemented smoothly and the business will not suffer. When the decision has been made to reduce the workforce, a plan is the first step. Some of the critical questions to be answered are:

- How many employees must be laid off?
- How will we select the people to be laid off?
- Who will assume their work?
- When will we do it?
- How will we tell them?
- Will there be any severance benefits?
- Who will deliver the message?
- What do we say to the employees left behind?
- How do we keep morale up and still serve our customers?

Let's take a look at these questions one at a time.

1. How many employees must be laid off?

Generally, the number of employees selected is based on an identified dollar amount needing to be generated. The cost of salary and benefits produces the targeted dollar amount. The number of employees will be determined by whether the decision is made to lay off high-salaried employees, lower-paid workers, or a combination of both.

2. How should we select the employees to be laid off?

The method used to choose those who will be laid off must be logical and defensible. It's likely you may have to defend your decision before a government agency or a court if those affected feel they are the victims of discrimination or wrongful termination. Is it VERY likely? YES.

Your methodology must make sense to the uninformed. The absolute safest way to select employees is to ask for volunteers. If it does not matter who leaves, that is utopia. No pressure, no accusations of favoritism or discrimination. Is it a common method? No.

You may eliminate an entire shift or entire job category. Some choose to layoff by seniority because they feel that is a “safe” way (maybe not?). You may use the most recent performance review scores as your measurement. They are quantifiable and make sense. You may layoff by skill. In this case, you will select those who are most highly skilled to remain. This is a less quantifiable way and subject to closer scrutiny.

Once you have identified the criteria, you absolutely must conduct an adverse impact study. That means you have to look at who is leaving versus who is staying. Look at the percentage of women, minorities and those over age 40 being laid off as a percentage of those same categories who are being kept. For example, if you have six minorities (Hispanics) in your warehouse and 12 non-minorities (White) and you lay off four minorities and two non-minorities, then you have selected 33.3% of your minorities and 16.7% non-minorities to be laid off. Can you defend your decision? If, on its face (*prima facia*) it looks like discrimination, then you will probably have to defend it. That does not mean you should not do it; it means you should be able to defend it.

3. Who will assume their work?

Many business owners tell me this is the scariest part. Unless they reduce a product line or exit a market, the work must go on. Other employees have to assume it. This may require training. It will always require skilled communication because those who assume the work may resist. They may complain that they are “*being asked to do a lot more with less and it is not fair.*” Don’t look for any gratitude from those being retained. They are more likely to be very angry. The business can suffer. Answering the question of who assumes the work requires input from managers and supervisors and their total support. In fact, management/supervisory commitment to the changes is the single most important element to make the change work.

4. When will we do it?

Economic downsizing usually occurs as quickly as the plan can be put in place because the goal is to reduce costs as soon as possible. There is no magic day or time. Many people suggest Friday. That’s how we got the name “Black Friday.” The logic of Friday is the employees will have the weekend to calm down. Don’t count on it. Many companies make changes at the end of the pay period because it is easier for the payroll department to calculate the correct termination pay.

5. How will we tell them?

Most companies tell employees individually. The conversation is very often held by Human Resources in large companies and by the manager of a small company. There is no easy way. It is very important to explain that the company is undergoing cost reductions, the job is being eliminated and the employee is being laid off. Do not try to make it positive. Losing your job is the capital punishment of employment. No one will be happy about it! So, just be straightforward and tell the employee the truth. It should take only a few minutes. Resist trying to minimize the action by telling employees it “might” be temporary because employees will believe they will be called back soon and may not look for other work.

Then, have the person explaining the final pay and benefits handle the paperwork and see the employee out of the building. Yes, the employee should leave immediately. It sounds cruel and mean but there have been many problems associated with leaving employees at work for the remainder of the day after layoff, including wiping out computers, copying files, creating a scene, etc., that employers have learned to take no chances. It is best to let the employee leave immediately.

6. Will there be any severance benefits?

There is no U.S. law that requires severance pay. Unless there is a contract that guarantees severance or “change of control” pay, then severance is optional and is usually covered by company policy. In the absence of a severance policy, be careful. All matters of compensation are subject to claims of discrimination. Most often, employees are paid all of their pay up to the date of layoff, all unused vacation, and all unused paid time off.

Some companies have a severance policy that states *“Employees laid off for lack of work will receive one week of severance for each year of service, up to XX weeks of severance pay.”* (8-12 weeks is common). This is offered to those who are willing to sign a legal release of all claims against the company. The language of the release is standard but different for those over age 40. We carefully write the exact language that applies to a specific employee. In some cases, we put in a special restrictive employment covenant (non-compete) and confidentiality agreement. It’s standard practice that if the employee refuses to sign, then any severance beyond final pay and legal benefits is withdrawn. Recently, an employee refused an extremely generous severance package, demanding that it be doubled. The distributor said, “No,” and the employee left with nothing! OOPS! We are not required to counteroffer. Since the whole procedure was initiated to reduce costs, it is not likely we are willing to increase a generous severance package. Keep in mind that a severance agreement is a contract. You give something to get something.

Although severance agreements are not required, as a practical matter companies offer them as a way to get a release from any potential legal problems and/or to restrict the employee from competing. I rarely have a client that lays off employees with nothing more than final pay and required benefits, except when they are financially unable to pay anything.

7. Who will deliver the message?

The person who delivers the message must be well-prepared. Human Resources staff is often asked to do it because HR people are trained in this area and they are sensitive to the legal perils. Those of us who are trained in HR know that we must follow an exact protocol. We are also aware of our need to be sensitive to the emotional state of the employee. In the absence of HR staff, we train managers to handle this work. Mistakes in handling the layoff can easily produce serious problems.

8. What do we say to the employees left behind?

It’s important to meet with the employees left behind and explain there have been layoffs related to the economy. Tell them that it will be necessary to increase the work load of some people, eliminate some processes, and make sure the customers are served in order to keep the business healthy. Do not moralize, preach, or apologize (you don’t control fuel prices!). Tell them you believe that you have addressed the issue, and you do not expect more layoffs (that is the number one question on their minds).

Once you hold the initial meeting, it’s important to communicate regularly to keep the employees fully informed about how the business is doing.

9. How do we keep morale up and still serve our customers?

One of the unexpected but obvious problems following a layoff is the loss of employees you don’t want to leave. Those left behind will question whether they are next. Some of your most outstanding employees may begin to look around for other employment opportunities. Competition may come calling and lure them away. At a time when you need them most, you risk losing your best people. For this reason, you must communicate often. Remind employees you appreciate them. Don’t overburden those left behind after a layoff. Recognize that employees will grieve the loss of their co-workers, daily interaction with those who have become friends/colleagues, loss of predictability of the workplace, and the feeling of job insecurity. They need time to adjust. Keep in mind that you and your managers have had a lot more time to process it and adjust because you were the planners.

Given the questions that must be answered, you will quickly recognize that careful planning is essential before any action is taken and employee reaction is normal and predictable. Your goal is to make logical and defensible decisions, implement the process with a minimum of problems, and keep the business moving forward without disruption.

Even with the best plans, the following example will illustrate how one careless action can be a disaster: When Company X made a commitment to their bank they would reduce costs, the owners looked at what to do. They concluded that the changes would include downsizing the staff. There were no volunteers. If they used skill or

seniority, it meant that three of their four minorities would be included in the layoff. They decided to use seniority because it seemed most logical and easiest to defend. The process went well, although they could not offer a severance package, since they were low on cash. Everything seemed fine until a Warehouse Supervisor had a conversation in a local convenience store with the store manager. When the store manager stated that he had heard about the business problems and offered his concern for the company, the Warehouse Supervisor responded, *"Yeah, it was a big deal; but at least we got rid of three of the four "N-people" I had to put up with."* That stupid comment cost the company \$150,000! Yes, the employees sued.

The company worked very hard to plan the layoff, to do the right thing, and to do it right. For whatever reason, this egotistical idiot felt a need to destroy the efforts of an honorable business owner. The company was sold. The example is classic and explains why there must be a plan and why all members of management must be educated and understand the explosive nature of managing change, especially when the change involves downsizing.