

# Are Layoffs the Answer?

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**Economic downturns, like the one we are experiencing now, are part of the normal economic cycle—although certainly it**

could be argued that this downturn has been (and may continue to be) unusually harsh. But regardless of the severity of the downturn, the sad truth is that many hardworking and competent employees, regardless of their work performance, typically face the brunt of firms' downsizing efforts.

Although no one likes layoffs—not employers, not employees, not employees' families, and not communities—layoffs have indeed become one of the answers, if not the primary answer, to the problems that beset us.

But is it the best answer?

The most visible aspect of the current period is the high unemployment situation. A recent Merrill Lynch analysis suggested that the actual unemployment rate was closer to 14 percent, a number which included those people who have given up looking for jobs as well as those forced to work part-time when they would rather work full-time. This statistic is significantly higher than the 7.6 percent reported by the U.S. Department of Labor and is the result of management actions to stem financial losses through massive reduction of employment in their organizations.

Long-term data, however, suggest that these efforts are usually counterproductive.

Like any management decision, layoff efforts have to be approached thoughtfully and strategically, an approach which is usually lacking in most workforce reductions. First of all, most firms seem to be caught unaware of impending slow-down in their markets. Secondly, when they do finally begin to pay attention to a declining economy, the focus



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turns to reducing costs, especially labor costs. After all, one could argue, isn't "good management" profit-focused, specifically by paying attention to the profit and loss statements? If so, it stands to reason that good management should automatically strive to cut costs.

On the other hand, the rare manager would suggest that people are not mere cost numbers to be slashed. Rather, they are assets to be nurtured and developed. An asset-focused management is likely to think long and hard on protecting, preserving and even growing valued assets—especially human assets. In this instance, good management should approach economic downturns strategically in the use and need for human talent.

This asset perspective always trumps the cost/profit perspective over the long-term. Unfortunately, very few firms emphasize the asset focus in their downsizing efforts, hence their efforts generate few long-term benefits. Protecting the bottom line through cutting employee costs is not a sustainable strategy and is no substitute for profits from growth. It makes the firm unprepared for recovery phase in the normal economic cycle.

How then do we approach a reduction in our workforce? Before I give two cases, let me start with a few presumptions.

- People are not merely head counts to be added and deleted, numbers on a ledger to be adjusted to meet bottom-line expectations. Rather, people reflect talents and knowledge and skills and abilities that allow an organization to grow and expand, even in difficult times.

- People provide the creativity and the initiative and the commitment to move forward. In turbulent times, these become even more critical.
- People bring the wherewithal to capitalize on opportunities when the inevitable recovery occurs. If you desire to gain competitive advantage when things get better, you need to be prepared now for the speed, flexibility, and effectiveness you will need later.

As we all know, laying employees off is a routine practice for auto manufacturers—with a few exceptions. Toyota stands out in this regard. And it too is considering laying off its employees, a practice that it has yet to use in its long and proud history.

Last fall, when the Big Three were reducing their workforce, Toyota quietly shut down manufacturing in their Princeton, Indiana, and San Antonio, Texas, plants. But unlike the Big Three, Toyota laid off none of its 4,500 workers in these factories. While Toyota was losing revenues because of the production cuts of the big-ticket



pickups and SUVs, it was also willing to take further financial losses by keeping its workers on the payroll.

Toyota's workers spent their time taking classes on safety, workplace diversity and ethics, and training exercises to improve their assembly skill levels. Latondra Newton, a general manager with Toyota, was quoted in *Workforce Management* as saying, "This was the first chance we've really had to live our values ... we're not just keeping people on the payroll because we're nice. At the end of all this, our hope is that we'll end up with a more skilled North American workforce." This is the asset management model in action.

Six months after this no-layoff decision, economic conditions have worsened and Toyota, facing huge losses, has yet to initiate the massive layoffs we've seen at Chrysler, Ford, GM, and Nissan. Instead, Toyota is eliminating bonuses for its executive and salaried employees, cutting executive pay, reducing the work week, reducing and eliminating bonuses and scheduled wage increase to hourly employees.

Even with these reductions in payroll costs, Toyota is now offering for the first time buyouts to its workers. All of the 25,000 or so of its workers in North America are offered 10 weeks of pay, two weeks of additional pay for every year of service, plus \$20,000 in cash. Also, the buyout program remains voluntary and Toyota has currently no target numbers in mind.

In contrast, GM is giving its workers \$20,000 in cash plus a \$25,000 voucher toward the purchase of a car—a GM, of course, reported the *Wall Street Journal* in February.

When the economy revives, and demand for cars increases, my bet is with Toyota to drive away with better revenues and profits than GM.

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