MOST CFOs SAY THAT MAKING JOB CUTS IS THE SINGLE MOST DIFFICULT PART OF THEIR JOBS, BUT THERE ARE WAYS TO MANAGE THIS PAINFUL PROCESS MORE EFFECTIVELY.

BY KATE O'SULLIVAN

HOW TO TALK ABOUT LAYOFFS

➡➡ **ON THE SAME DAY IN NOVEMBER** that it reported record revenues for the first quarter of fiscal 2009, Aruba Networks announced it was laying off 9 percent of its more than 500 employees. In an earlier time the conjunction of good news and bad news would have been jarring, but not now. "We took a hard look at how our organization was structured, and even though we were coming off a very strong quarter, ➡➡

ILLUSTRATION BY TAVIS COBURN

I think everyone could see 2009 was going to be tough sledding," says Steffan Tomlinson, CFO of the Sunnyvale, California-based wireless-networking firm. To make sure the remaining employees understood why the positions were eliminated, top executives held a companywide meeting that same day and explained that the layoffs were part of a broader cost-cutting effort designed to, in part, save jobs. "We really emphasized that we did not want to have to make a second round of cuts," says Tomlinson.

A few days after Aruba's announcement, managers of a small New England–based consulting firm told employees that prospects for the new year looked grim. Asked if there would be layoffs, one executive said only that the firm was "considering a lot of options." For two weeks nervous staffers gathered in the hallways to swap rumors and handicap their chances of having a job come Christmas. Just before the holidays the word came down: 25 percent of the staff was being let go. But management let news trickle out; many employees were traveling and only got word through the office grapevine. In fact, some former employees heard the news before current staffers did. Those employees who remained received little reassurance that their jobs were safe or that management had a strategy for reviving the business.

Laying off workers is never easy, but as the examples of Aruba Networks and the New England consulting firm show, some approaches are far less damaging to morale and company reputation than others. At Aruba, the employees who remained understood why the layoffs were made and knew that their managers had a plan for moving the business forward. At the consulting firm, the employees who kept their jobs were left burnishing their résumés and wondering if they would be

STEFFAN TOMLINSON,
CFO OF ARUBA NETWORKS

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able to jump ship before it sank.

Many more businesses will face the thorny prospect of downsizing in the coming year. Companies made thousands of layoffs in 2008—with more than 2,000 businesses laying off at least 50 workers in November alone—and nearly half of all finance executives surveyed by *CFO* say their companies will reduce their workforces this year. Given that many businesses are rapidly taking on water, it's hard to blame managers for taking a short-term view of layoffs. Still, experts recommend pausing first and taking a long, measured look before issuing pink slips.

"Executive teams that are considering workforce reductions have to slow down," says Ted Olsen, a partner with law firm Sherman & Howard who specializes in employment defense. "I'm seeing too many reductions in force that are being conducted too hastily. People are feeling the economic pressure, they're in panic mode, and they're losing perspective."

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TED OLSEN, SHERMAN & HOWARD

A SURGICAL APPROACH

Beyond the business and morale reasons for proceeding cautiously, Olsen points out, there are also legal considerations. For starters, federal law under the Worker Adjustment and Retraining Notification Act (WARN) requires many employers to provide workers with 60 days' notice before terminating their employment (see "Due Warning," page 50). Hasty layoffs can also result in discrimination lawsuits. To cut that risk and make a difficult decision easier, Olsen recommends developing a system for determining which employees will be let go. "So often clients will say to me, 'Well, I know Bill needs to be let go,' rather than making the case for why Bill needs to be let go," says Olsen. "It makes so much more sense to set up a system and then lay off the employees, rather than jumping in and then trying to come up with the reason."

At Aruba, the management team took a "surgical" approach to layoffs, according to Tomlinson. They evaluated the company's product-development priorities and decided to allocate resources to fewer projects, favoring those that would help customers save money. "There were some ancillary features and products that might have been nice to have that were no longer critical in this environment," says Tomlinson. Thus, entire project groups could be eliminated without damaging the core business. Still, he notes, "The amount of cutting we did in R&D was pretty light."

When executives expect to make cuts across the business (a method Tomlinson calls "the peanut-butter-spread approach"), a system to evaluate employees can help managers stay focused on objective criteria instead of personal preferences. Length of service, performance, disciplinary history, and versatility are all possible benchmarks, says Olsen. "At the end of the process, there ought to be a written case for why cuts happened the way they did, and why certain people were selected to be let go. Make it systematic, rather than making one-off decisions about people."

The speed with which companies have conducted mass layoffs during the past few months suggests that many management teams are not being anywhere near this deliberate. Olsen says he has seen clients cut too quickly and too deeply, only to find themselves short-staffed later on. Companies can run into legal trouble if they then hire someone new to fill the position soon after the layoff—if the person who loses her job is female, for example, and the new hire is male. "It's hard to make a believable business case that there was a force reduction when a position is recreated so quickly," says Olsen. "Those are very hard discrimination cases to defend."

SWIFT CUTS

Once managers have decided who should go, they need to shift gears and make the cuts as quickly as possible. Employees pick up on clues that a company is not doing well, and nothing saps productivity like round after round of guessing games at the water cooler. Finance workers are even more

LAYOFF NATION

LAST NOVEMBER WAS A CRUEL MONTH FOR EMPLOYEES, AS COMPANIES MADE MORE THAN 2,000 MASS LAYOFFS. HERE ARE THE SECTORS THAT SUFFERED THE MOST:

14,430
Temporary-help services

12,563
Highway, street, and bridge construction

5,873*
Professional employer organizations

3,932
Food-service contractors

3,237
Travel trailer and camper manufacturers

3,157
Motion-picture and video production

2,935
Farm labor contractors and crew leaders

2,901*
Motor-vehicle metal stamping

2,858
Heavy-duty truck manufacturing

2,823*
Discount department stores

* Record high number of claims

Source: Number of initial unemployment claims, November 2008; Bureau of Labor Statistics

Robert Houser

likely to speculate about layoffs, since they are privy to details regarding the financial health of the company.

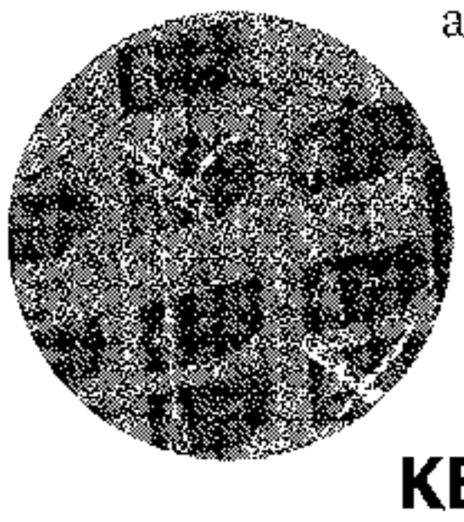
"Try not to lay people off in waves," advises Neal Restivo, a partner at Tatum who is currently serving as CFO at a midsize manufacturer in the Midwest. "Try to get all the bad news out, reassure employees that the layoff is complete, and start a healing process for those who are left so they can get back to work." Restivo suggests breaking the news in small departmental meetings. "It's important for people to get specific details about the things that are directly impacting them," he says.

Within a day or two of the initial announcement, the management team should address all staff to explain the layoff and answer questions. "Executives often assume that employees understand the company's long-term plan when in many cases they don't," says Restivo. "You want to prevent a situation where people are making wrong assumptions." CFOs should also avoid painting a picture that is too bleak, which could scare off top performers. "Your best people will think, 'Why should I stay here when there's no future?'" he says (see "Scoping Out the Talent," page 52).

Of course, before communicating the big-picture view to the surviving employees, many CFOs may find themselves having to deliver the bad news to the soon-to-be-departing staffers. That's a task for which few receive training, and which many say is among the hardest things they've ever had to do. "No one teaches you how to let somebody go," says Richard Block, a Tatum partner and former finance chief who is currently working as the interim controller of a life-sciences firm. "It keeps CFOs from doing the right thing as fast as they should, because they don't really have the skill set, and no one wants to have this kind of conversation."

In a previous job, Block worked with an experienced human-resources executive who walked him through the layoff process and helped him rehearse what he would say in advance of each employee meeting—a practice he recommends today. "Just saying the words often helps," he says. "You need to have a very focused conversation, because you feel so bad that you [may find yourself] in a discussion where you almost end up hiring the person back."

To keep the conversation on track, Block recommends a tag-team approach in which one person, usually the individual's direct boss, tells the employee about the layoff, gives the rationale (preferably accompanied by an apology), and leaves the room. A second person, typi-



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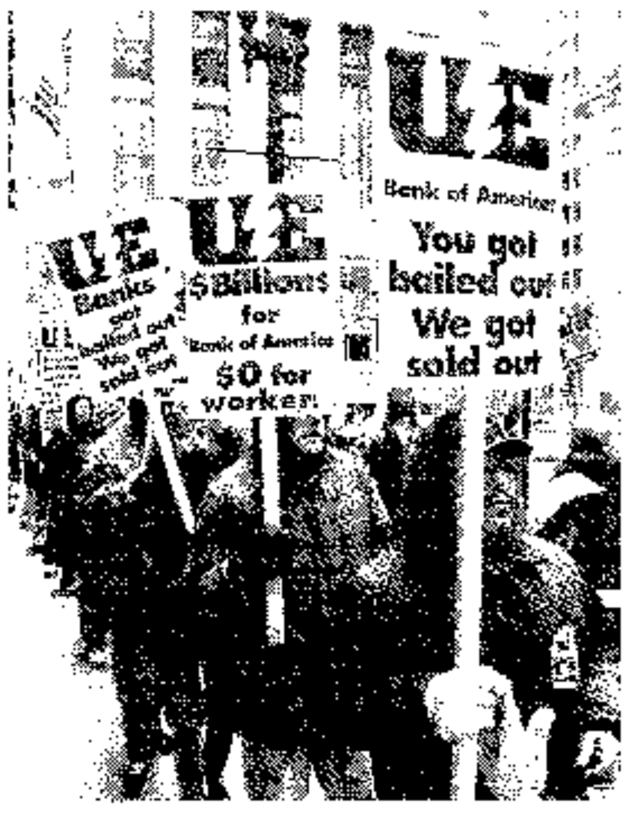

DEMONSTRATORS RALLY OUTSIDE A BANK OF AMERICA BRANCH IN CHICAGO

DUE WARNING

SIGNED INTO LAW IN 1988, the federal Worker Adjustment and Retraining Notification Act (WARN) is hardly new, yet few companies seem to know about it. The law requires employers with 100 or more employees to give workers 60 days' written notice prior to a plant closing or mass layoff. But, either by deliberately ignoring the law or simply being unaware, employers that are subject to it fail to comply about two-thirds of the time, according to a study by the Government Accountability Office.

Last December, workers at Republic Windows and Doors in Chicago turned a spotlight on WARN. The company shut down after Bank of America canceled its credit line; management gave workers three days' notice and did not pay for accrued vacation time or provide any severance pay. **Employees at the manufacturer protested the company's abrupt closure with a six-day sit-in, saying they had not received adequate notification in accordance with WARN.** Following the protest, Bank of America extended the company enough credit to allow it to pay workers $7,000 each.

WARN defines a mass layoff as one involving either 500-plus employees or 50 to 499 employees if that figure constitutes at least a third of a company's workers. In practice, companies often avoid giving 60 days' notice in such situations by providing severance pay for at least 60 days instead, says Ted Olsen, a labor and employment lawyer with Sherman & Howard. (Employers that decide not to provide severance packages are thus at greater risk of being in violation of the law.) The law also provides an exception for companies that can successfully claim they have experienced an unforeseen disaster, financial or otherwise. While it could be argued that the credit crisis and market meltdown were unforeseen disasters, "there have not been a lot of companies having success with those arguments," says Olsen. Lawyers say they expect more WARN-related lawsuits as mass layoffs continue to spread. —K.O'S.

cally an HR manager, stays behind and spells out the departure date, severance pay, and any accommodations the company is making, such as access to career-counseling services.

"It's usually at this point that the news starts to hit the person," says Block. "This is when you have to worry about the emotional impact." As Block has gained experience with layoffs, he has occasionally played what he calls "the mechanic" role—the person who stays behind, handles the details, and sympathizes with the employee. While practice has helped him learn how to conduct such meetings as smoothly as possible, it's still not easy. "You don't sleep the night before, because you know you have to do it," he says.

MOVING ON

The effect of layoffs on a workforce can linger for months. Establishing an ongoing employee-communications process can make a big difference, especially as economic conditions are changing rapidly, and even regular quarterly meetings may no longer suffice. Managers frequently assume workers know more about the company's strategy and financial position than they do, and these days workers who are not kept up to date might assume the worst. "You have to be attuned to how much your staff looks to you for how you are comporting yourself and how you are communicating," says Aruba's Tomlinson. "If you're holed up in your office and not having all-hands meetings, people will be even more scared about what's going on."

CFOs should quickly reach out to those employees who are most vital to the company and let them know that they are valued, advises Block. Otherwise, even in the current market, top performers may decide to jump ship. "If you don't want to lose them, you have to make it more appealing for them to stay by offering future responsibilities or more current responsibilities than they would find elsewhere, or maybe making it financially rewarding," he says.

Executives also need to help a smaller workforce figure out how to redistribute the workload. "It doesn't work to just say, 'We've eliminated 10 percent of the staff and you're going to need to pick up the slack,'" says Restivo. "That approach just increases anxiety." Instead, managers can bring their departments together and discuss how to streamline processes and eliminate unnecessary work.

Finally, workers need to be reassured that the company has a future, and that they are needed to help it get there. "You need to let people know that the company is solid, and that the markets the company serves aren't going away," says Restivo. "You want people to start thinking about the longer term and recognize that the business is going to come back—and that when it does, the company needs to be ready." CFO

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PLAN B

FOR BOTH ALTRUISTIC AND BUSINESS REASONS, SOME COMPANIES ARE SEEKING ALTERNATIVES TO LAYOFFS.

LATE LAST DECEMBER, FedEx announced that instead of laying off workers it would institute pay cuts for 36,000 employees—including top executives. CEO Fred Smith took a 20 percent pay cut, while other senior executives took reductions of 7.5 to 10 percent. Other salaried employees saw their paychecks cut by 5 percent. Executives hoped the across-the-board cuts would enable them to avoid making layoffs despite dismal numbers for the shipping giant. **"Our financial performance is increasingly being challenged by some of the worst economic conditions in the company's 35-year operating history,"** said Smith on the company's fourth-quarter earnings call in December. Despite existing plans to slash $1 billion in operating expenses in the company's 2009 fiscal year, FedEx is "taking additional actions necessary to help offset weak demand, protect our business, and minimize the loss of jobs," said Smith.

↑ INSTEAD OF LAYING OFF EMPLOYEES, FEDEX CUT SALARIES ACROSS THE EXECUTIVE RANKS.

Landov (2)

FedEx is not alone in trying to avoid layoffs and their consequences, which include damaged morale, loss of talent, and the expense of hiring and training new employees when the economy turns around. After announcing a 77 percent plunge in its third-quarter 2008 profits, Best Buy recently offered buyout packages to nearly every corporate worker at its Minneapolis headquarters. During the 2001 recession, Cisco Systems famously preserved much of its workforce by offering people 30 percent of their salaries while they took sabbaticals or performed charity work. Other companies are considering hiring and wage freezes, reduction of overtime, elimination of bonuses, shortened workweeks, reduced or eliminated 401(k) matches, and reduced company contributions to health benefits (see "Prognosis: Negative," page 58).

Ted Olsen, a labor and employment lawyer at Sherman & Howard, suggests making a commitment to laid-off workers to rehire them if business turns around or to contact them first if the position is recreated. "If an employer can give any kind of reassurance—without overcommitting—it should," he says. —K.O'S.