

# Compassionate Layoffs: Proceed with Care

by Melanie Lockwood Herman and Ruth McCambridge

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**A**S NONPROFIT FUNDING STREAMS dry up, executives and boards watch carefully and try to judge when to make dreaded staffing cuts. Some are waiting until their inability to make payroll at current staffing levels has been confirmed, and some are making cuts quickly to stem the erosion of cash reserves. But whether it includes pay cuts, benefit reductions, staff furloughs, layoffs, or a combination of the above, most nonprofits facing financial stress will likely have to eliminate positions or reduce staff hours because payroll reductions are where the largest dollar savings lie.

But how nonprofit leaders proceed when faced with the need to cut staff is critical to a nonprofit's long-term success, ability to rebound from challenging circumstances, and a key predictor of whether damaging fallout will result from action taken to protect the mission.

Organizational compassion and transparency are guiding principles, and the combination of the two make a valid risk-management strategy. Just as employees expect to be treated fairly and with respect during their employment, they also expect that when a nonprofit with

a community-serving mission needs to reduce its workforce, it will be equally kind and fair.

## Transparency

In this case, transparency is the soul of fairness. Enlightened nonprofit leaders keep employees informed of what the organization's financial situation is on a continual basis and, therefore, when circumstances start to decline, employees are well aware of the stress facing the organization, which allows employees to do two things:

- help the organization take action that might lead to retaining income or generating new funds; and
- consider their own finances and life options to help inform management decisions about which positions should be eliminated if such action becomes necessary.

The long and short of this principle is that few employees like unpleasant surprises or having things forced on them—even if these decisions are necessary from management's point of view. Providing ongoing information and involving people in providing input on staff cuts can improve decision making and present an organization with options it otherwise might not have entertained.

While some experts are fans of the “Just do it, and do it quickly” school, when it comes to staff reductions, this approach is arguably antithetical to the values held dear by most nonprofits and may expose the organization to claims and damage that could have been avoided with a more compassionate and transparent approach. A few organizations with which we discussed staff reduction asked for staff input on the kinds of cuts preferred.

One recent, well-publicized example was at Boston's Beth Israel Deaconess Medical Center, a “supersize” nonprofit. Faced with the prospect of a \$20 million operating loss, the world-class teaching hospital had tentatively planned layoffs of 600 staff. But first Paul Levy, the CEO, presented the problem to staff. Where other than staffing cuts could cost savings be achieved? By providing input, staff identified sufficient cost savings to reduce the layoff list to 150 positions. Among the alternatives implemented were withholding an annual salary increase of 3 percent (exempting lower-paid employees), temporarily discontinuing the employer match into pension funds, and voluntary pay cuts for senior executives, starting with the CEO, who took a 10 percent reduction. Reimbursements for cell phones and BlackBerrys were also eliminated. But

the hospital's administrator drew the line on tuition reimbursement ("I do not want to abandon the goal of providing professional advancement for people") and the institution's relationship with the Red Sox as the team's "official hospital."

Clearly, the responsibility for making staff cuts is in the hands of the executive and board. But if what you hope for in the wake of these cuts is a staff with fierce allegiance to the organization and its mission, keeping staff informed about the financial condition of the organization and including staffers in critical decision making (as in this case, where it involved staff livelihoods and hospital spending) can help create unity of purpose.

### The Golden Rules of Layoffs

A fundamental risk management principle is to treat employees according to the Golden Rule. Never is this principle more important than when an organization is facing adversity.<sup>1</sup> When you do need to lay off staff, being compassionate serves an organization well in the following ways:

- Departing employees have less animosity toward their former employer and may provide invaluable help during the transition period, such as training co-workers to perform essential tasks and duties.
- After they witness the help provided to departing staff, remaining employees may feel less anxious about their own job security.
- Morale among remaining employees is likely to remain high, and this can improve the odds that an organization can successfully move forward with its critical mission.

But some rules are critical to observe:

1. **Never lay off an employee where the true goal is termination.** Layoffs are not a means to prevent terminating an employee for poor performance, violation of workplace rules, or the simple

desire to remove an employee from the payroll. Where employment practices are concerned, truth is both a virtue and powerful defense against claims of wrongdoing. When you inform an employee that he is being laid off and subsequently hire a replacement, you're being dishonest, and that is all too often discernable by other employees. This creates a sense of mistrust of motives and, therefore, anger and tension in the workplace. Further, you expose your nonprofit to claims that your actions were a pretext for illegal discrimination.

2. **Consider severance pay, but proceed with caution.** Because layoffs are unexpected and not the fault of an employee, many nonprofit employers offer separation pay when economic necessity requires termination. A standard policy that guarantees a certain amount of severance based on years of service can be risky. When a severe shortfall necessitates immediate layoffs, you may not have sufficient resources to cover these guaranteed payments. Failing to meet the promised formula exposes a nonprofit to breach-of-contract claims by laid-off employees.

3. **Communicate individually with each affected staff member.** News about layoffs should be communicated verbally to affected employees on an individual basis. An organization should also prepare a letter stating the conditions of the layoff for each laid-off employee. After counseling affected employees, an organization's leadership should communicate with all employees, explaining the rationale of the final decisions.

4. **Provide outplacement assistance and support.** Be creative in offering outplacement assistance to employees affected by your reduction in force (RIF). Consider allowing—even encouraging—employees to use the nonprofit's equipment for writing résumés and cover letters, searching online

employment listings, and setting up interviews with prospective employers.

5. **Never use salary as a basis for determining layoff candidates.** Limiting layoffs to employees at the higher end of the salary scale can raise the specter of age discrimination, as older workers with seniority tend to earn more than their newly hired and younger counterparts. Layoffs should be based on preservation of the most essential functions.

6. **Review all RIF-related documentation.** An organization must ensure that its RIF-related materials don't refer to protected classes, such as age, sex, and race. In *Krchnavy v. Limagrain*, for example, after an older female employee was laid off, the company's documentation of the selection criteria for its RIF was an effective defense against the former employee, who alleged that the RIF was a pretext for age and sex discrimination.

7. **Identify a single employee to coordinate communication with laid-off employees, such as an HR director or another responsible senior manager.** Instruct other managers that they should refer laid-off employees with questions about the process to the single point of contact. This strategy helps to reduce the spread of misinformation.

### Avoiding the "Survivor Syndrome"

A recent article in the *Washington Times* describes post-layoff workplace dynamics among "survivors." It goes something like this:

- Survivors of a layoff miss departed colleagues and mourn their absence.
- Survivors are left picking up the slack in light of a reduced workforce.
- Following a layoff, survivors may work harder at first, hoping to be spared if another round of cuts emerges.
- Remaining employees' worry about additional cuts, however, can breed caution and a lack of creativity just

## Survival Strategies for Nonprofit Leaders

In an organization's post-layoff environment, organizations should consider the following steps to create stability and assurance for employees who remain.

- **Get it out on the table.** Ensure that employees have information about what the organization needs in order to thrive, and listen carefully to what employees need to thrive in a reduced-workforce environment. People may express guilt and anger. Help employees to acknowledge these feelings and don't force them underground. Instead promote as much goal-oriented teamwork as possible.
- **Communicate often.** After layoffs have been announced, supervisors should meet with staff based on agreed-upon talking points. Providing clear, concise, and consistent information to all employees is important. For leadership, a key decision is how much to share about your own concerns. Leaders always have concerns, but this environment only intensifies this worry. Some of this is simply your own load to carry, so it is important to be forthcoming without promoting terror and instability.
- **Make thoughtful decisions about work allocation.** Most nonprofit organizations have more work than they can handle, and layoffs can exacerbate overwork. Senior staff should think about and negotiate with remaining staff on work priorities and which tasks should be dropped altogether. Most nonprofit leaders are accustomed to doing more with less. In the wake of staffing cuts, it is very likely that a nonprofit will have to do less with less. These choices are difficult, but assuming that all work will simply continue as previously is a mistake. It can create staff resentment and burnout.
- **Make time for community.** During layoff periods, many organizations may need to make budget cutbacks, but that doesn't mean that opportunities to nurture and support staff should disappear as well. A breakfast gathering or a potluck lunch is an inexpensive way to nurture

the bonds that hold organizations together. Colleagues and a sense of purpose keep employees engaged. During a period of retrenchment, it is particularly important to consider how best to maintain bonds and staff cohesion.

- **Hold the current reality, prepare for better days.** After a period of layoffs, it is easy to slip into a negative mindset, especially in the face of daily headlines of economic gloom. There is also a tendency to approach every task or project with a scarcity or "not enough" mindset. An organization must navigate the delicate balancing act to support employees through the current reality but also to see beyond it. Help everyone, including yourself, to balance reality with hopefulness and to ground that hopefulness in actual steps that strengthen your organization for the long haul.
- **Take care of yourself.** Nonprofit directors and senior staff need to support others at a time when they too may feel discouraged and depleted. It is critical that leaders find time to handle their own emotions and the inevitable roller-coaster ride that layoffs present. With so much to do and so many people to think about, it is easy to skip the core considerations that keep leaders sane through these downturns. But that's an unwise decision. Leaders who are in it for the long haul need to take care of themselves to be truly present for others and bring their best thinking and spirit to the organization. During a time of layoffs, investing in your own care is vital and a wise investment of your time and other resources. In her book *Life Is a Verb: 37 Days to Wake Up, Be Mindful, and Live Intentionally*, author Patti Digh reminds readers to "put your own mask on first." This simple and familiar advice contained in every pre-flight safety briefing is a wonderful reminder for leaders to take care of themselves first in order to protect and fortify the missions of the nonprofits we serve.

when it may be most needed.

- Even worse, fear of additional cuts may also breed a tendency for employees to seek favor at the expense of their colleagues.
- The whole experience becomes exhausting and finally results in the layoff "survivors" feeling envy for the layoff "victims."

While economic belt-tightening and staff reductions clearly create stress and anxiety within an organization, organizations can create a participatory, inclusive, and empowering culture—even in the wake of layoffs. Managers can create

a climate of fear or a new beginning—and the key here is the empowerment of employees in crucial decisions, particularly in such areas as potential budget cuts. When cuts are on the table, engaging employees in shaping a nonprofit's future can work in favor of the mission and the staff.

### ENDNOTE

1. In its book on enlightened employment practices *Taking the High Road: A Guide to Effective and Legal Employment Practices*, the Nonprofit Risk Management Center articulates this principle and how to practice

it ([www.nonprofitrisk.org/store/high-road.shtml](http://www.nonprofitrisk.org/store/high-road.shtml)).

**MELANIE LOCKWOOD HERMAN** is the executive director of the Nonprofit Risk Management Center. The center offers a range of resources for nonprofits on various risk management topics. For more information, see [www.nonprofitrisk.org](http://www.nonprofitrisk.org). **RUTH MCCAMBRIDGE** is NPQ's editor in chief.

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