Contrarian **Wisdom**

By Clay Sherman

The Idiocy of Layoffs

Plagues periodically swept through Europe during the Middle Ages, killing and disfiguring tens of thousands as the infection took hold in one village after another. In the economic bad times of the mid- to late 1990s, a plague, borne by its consultant carriers, was visited upon healthcare providers—the dreaded layoff.

Arthur Andersen was the Typhoid Mary of the layoff movement. They and others of their ilk journeyed across the land with the gospel of cost reduction through removing "disposable units of cost"—"people" to us normal folk. The advisers who helped coach Enron and WorldCom into the garbage heap of failed organizations had a view of management strangely at odds with healthcare's values, and they ripped up the unwritten contract of trust between America's hospitals and their staffs.

Think I'm being a little hard on these good folks? I don't think so. Mismanagement has consequences, and those who advise management would be well served to remember Hippocrates' advice to do no harm. The healthcare layoffs of the 1990s created a disaster, and its poisons will stay in the soil of the workplace for years to come. Once you lose the position of employer of choice, it can take a decade to get it back.

And hoped-for benefits from a layoff are usually ephemeral. While it looks like management is taking strong and decisive action, layoffs misleadingly inflate current reported profits and divert attention away from the underlying problems eating at the organizations' future. In fact, research shows that layoffs are ineffective as a cost reduction strategy:

- *Money* reported that a 10% workforce reduction yielded only a 1.5% reduction in operating costs, since overtime, separation payments, loss of customers, and other impacts of a layoff ripple through the company.
- One remarkable study reported that executives often shrink the company because they don't know what else to do. Not understanding how the business should be run, they panic and execute what is most often recommended by number crunchers—a staff cut. In subsequent periods, the business tends to do no better because root problems are still not fixed.
- Finally, and most telling, healthcare workers were seldom asked by management for ideas for cost reduction, even when they were facing the need for dramatic financial cuts—a strategic business error. They believed the thinking of the consultant but didn't ask the opinion of the people who worked there.

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Apply layoff logic to your family. When times are tough, tell the two oldest kids to get out. Said one hospital CEO who succeeded in avoiding a layoff, "Perhaps hospitals would benefit from having a new layoff policy—persons who recommend a layoff will be!"

Can you really win by destroying intellectual capital and the culture that nourishes it? Can you turn to the remaining 90% of staff and say, "Trust us?" Listen to Jack Stack, a CEO and author of *The Great Game of Business:* When downsizing is the only choice, it's a sign of how badly management has failed, and the people who get hurt are invariably those who had nothing to do with creating the problems in the first place.

Sure, there are times when an organization has no other choice but to downsize, regardless of who's at fault or what consequences are to be. But let's never again buy into the crazy idea that layoffs are all right. There's something seriously out of whack with that way of thinking.

Any doubts I had about the existence of God were swept away when Arthur Andersen self destructed, reaping the layoff harvest for themselves that they had sown for others.

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