# Preventing Layoffs

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U.S. Department of Labor
William E. Brock, Secretary
Bureau of Labor-Management Relations
and Cooperative Programs
Stephen I. Schlossberg,
Deputy Under Secretary
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# Preventing Layoffs: Developing an Effective Job Security and Economic Adjustment Program

GARY B. HANSEN*

*U.S. employers have long viewed worker job security as a drag on productivity and have accepted layoffs as a necessary option for reversing economic decline. However, evidence from the recessions of the past decade suggests that the practice of laying off workers is itself costly and can seriously disrupt an enterprise's operations. In addition, many employers who experimented with alternatives to worker layoff during this period discovered that these measures could in fact help them to regain economic stability and increase productivity. In the following article the author presents a comprehensive rationale for worker job security and describes various approaches for implementing job security programs.*

## Introduction

Many American business firms and organizations exhibit, as a matter of policy—or lack thereof—a casual attitude toward employee layoffs. Often, the managers of these firms and organizations fail to understand the serious implications and potential consequenees such attitudes can have on the productivity and long-term success of their enterprises. Unfortunately for the U.S., many Japanese and European managers have a better understanding of these issues, and managers and workers have benefited accordingly.

This article sets out a rationale for providing job security to employees and identifies some of the methods and techniques that have been adopted by job-security-conscious employers in the U.S. and abroad to reduce operating eosts and improve productivity as a means of preventing employee layoffs.

* *Ph.D., Cornell University. Mr. Hansen is professor of economics at Utah State University and director of the Utah Center for Productivity and Quality of Working Life.*

## A Definition of Job Security

Job security is the protection of workers against loss of employment and earnings in an enterprise for a reason unrelated to a worker's performance or behavior. Job security usually means that, during periods of economic difficulty, workers are retained in the employ of the firm or enterprise, although not necessarily in the same job or work assignment. The protection consists of actions by the employer to avert the threat of layoff or severance, or, if the threat becomes a reality, active help in placement in suitable jobs with other employers.

## Employer Responsibility to Provide Job Security

Do employers have a responsibility to provide job security for their workers? The importance and timeliness of this question is evidenced by the number of articles on the subject that have recently appeared in the news media. John H. Lawrence, writing for the *Los Angles Times*, addressed the question, "What Kind of Responsibility Do Firms Have for Workers?" After citing three recent instances in which employees were dismissed without any regard to fairness and decency, Lawrence said,

> Most American corporations avow considerable commitment. While they avoid promises of lifetime employment, they provide programs to ensure some security and at the same time encourage longevity on the job, for the good of the company as well as the employee. When they are forced to cut back operations, they make efforts to retrain and relocate workers. A few even try job sharing as a means of avoiding putting people on the street.
>
> At the same time, however, the practice in many industries is to treat payroll reduction as the chief means of maintaining some semblance of profitability even in bad times.
>
> Considering the share of total costs payroll generally accounts for, that would seem logical, even mandatory if a cash-short company is to survive. But in . . . too many cases involving payroll cutbacks, the issue is immediate—that is, current year—profits rather than survivability. . . .
>
> The problem is that the policy of quickly adjusting the payroll to changing conditions is used to excess. Too often the individuals affected by the cutbacks are paying the penalty for bad planning and management.[1]

The numerous examples, cited by Mr. Lawrence and others, of employers who callously discharged employees for little or no good reason suggest that too many employers in America are more concerned with immediate profits than with the well-being of their employees, and do not believe that they have a responsibility to their workers.

### Rationale for Providing Job Security

There are five basic reasons why employers should consider the adoption of a more humane job security program:

*Laying off workers is very costly to the enterprise.* Expenses associated with layoffs add up to a substantial financial burden that reduces whatever gains the company makes by cutting back the work force. These expenses include severance payments, higher unemployment insurance (UI) taxes, the cost of continuing health and other benefits after severance, administrative and legal costs, and the costs of rehiring and training workers in future expansions.

*Layoffs have serious operational disadvantages.* There are a number of serious problems that may result from frequent layoffs. The process of bumping, which is usually based upon seniority, causes a painful realignment of workers and seriously disrupts the business operations. Good people may leave the firm for a more stable work environment. Fear of losing their jobs creates stress in employees. The company may get a bad reputation for having little regard for its workers. Workers may be encouraged to unionize to protect themselves, or, if already organized, they may become more militant and uncooperative in their relationship with the company. And productivity and quality may fall as a result of rapid turnover.

*Job security creates a climate for change and growth.* There are a number of important advantages for employers who adopt the principle of job security. Employees protected by job security will support continual change and thereby make the company more competitive. Employers will be encouraged to invest in training and developing people, thus creating a more flexible and adaptable work force. Managers, supervisors, and workers will be able to concentrate on the common goal: the enterprise's success. And employers will be able to move rapidly to increase production and to service customers more quickly than the competition when the business slump ends.

*There is a growing demand for job security.* Changes in the legal climate and in demographics, including the coming-of-age in the 1970s and 1980s of young people with new attitudes and values; the fact that many new firms are becoming more people-oriented; and the unions'[1] greater insistence on job security for their members have all contributed to the demand for greater job security. The question of employers' commitment to their employees is becoming a legal issue in the United States. In recent years, the courts have established precedent for arguing that there is an implied contract between employer and employee that limits the employer's right to fire at will.[2]

*Job security promotes productivity.* One of the most important reasons for adopting a positive program of job security is productivity. The issue has been succinctly stated by James Bolt in the *Harvard Business Review:*

> No amount of technological innovation, worker education and training, work force restructuring, or job redesign can realize its full productivity improvement potential without the cooperation of trusting employees, men and women who know that change in the workplace does not threaten their livelihood.[3]

Several recent research studies have demonstrated the positive correlation between job security and increased productivity. In a study at Boston University, Fred Foulkes found that offering job security to employees creates loyalty to the company and confidence and trust in management, greatly reduces resistance to technical change, lowers staff turnover, and improves employee relations—all competitive advantages that can contribute to higher productivity and profits.[4]

Another study, by Richard Pascale, found that the concept of job security is not a foreign invention like Japanese management styles, which are culture bound and would not work in the United States. In fact, the Japanese, our number one competitors, have successfully introduced the concept of job security into the United States. The Pascale study found that Japanese firms operating plants in the U.S. that have adopted the job security principle perform better than comparable U.S. firms, with higher productivity and profits.[5] A number of U.S. firms have successfully adopted job security, and some, such as IBM, were practicing the concept for many years before it was adopted by others in the U.S. or abroad.

### Economic Adjustment Responses for Job Security Programs

Unfortunately, there are no blueprints for employers to follow in developing a job security program. However, there are basic concepts and techniques that employers have used successfully in implementing job security. The first step is to adopt a basic philosophy and communicate the policy and commitments to the work force. Such a policy should include three basic guarantees: (1) that no permanent employee will be laid off or downgraded as a result of internal productivity improvements; (2) that the broadest commitment the company can afford with respect to employment security will be granted during business slumps and that this coverage will be increased as business success permits; and (3) that in the event that economic recessions make layoffs unavoidable, the company will actively assist dismissed employees in finding new jobs with other firms.[6]

The second step an employer should take is to identify and implement the economic adjustment responses needed to manage job security within the enterprise. There are four basic economic adjustment responses that employers, workers, and communities can pursue to maintain job security in the face of a threat of major reductions in force or plant closings. These responses include

I. Improving the viability of the enterprise;
II. Implementing new human resource techniques;
III. Preparing workers for labor market reentry; and
IV. Fostering community economic development.

The chart provided here shows these responses as the four basic dimensions of an effective economic adjustment program.[7]

**Dimensions of an Effective Economic Adjustment Program**

| | | Targets of Efforts | |
|---|---|---|---|
| | | Jobs | Workers |
| Forms of Restructuring | Internal | I. Improve Enterprise Viability | II. Implement New Human Resource Techniques |
| | External | IV. Foster Economic Development | III. Prepare Workers For Labor Market Re-entry |

Responses I and II are internal to the enterprise and are primarily preventive. They represent actions that can be undertaken within the firm to increase its viability and prevent the necessity of layoffs or shutdown. Responses III and IV are external to the enterprise and are primarily remedial. They may involve the community and its agencies in facilitating the transition of dislocated workers to new jobs and in creating new jobs in the community for these and other unemployed workers.

Another way of looking at the four basic economic adjustment responses is to consider what or who is the primary target. Responses I and IV are directed at saving or creating jobs. Responses II and III are focused on the workers.

An economic adjustment program should be proactive and should include an integrative approach to all four areas. The employer's primary emphasis should be on increasing the viability of the enterprise and implementing the human resource techniques necessary to prevent layoffs. If these two responses are insufficient because of the severity of the crisis, the employer should cooperate actively with the community to prepare the redundant workers for labor market reentry and to foster economic development to improve the community's ability to absorb them.

The remainder of this article focuses on economic adjustment responses I and II, with a brief overview of responses III and IV. Additional information about responses III and IV can be located through the publication cited in note 29.

## Improving the Viability of the Enterprise

The first component of an effective economic adjustment program emphasizes internal restructuring to enhance the viability of the enterprise and thereby prevent or minimize the layoff of workers. Restructuring should be directed toward making the operation of the business more competitive. At least five changes can be made to improve the enterprise's cost structure. They include direct cost cutting, productivity improvement, development of alternative products, locating a new plant in the area, and changing the ownership structure.

### *Direct Cost Cutting*

Two possible ways to cut costs directly are to reduce overtime and/or to reduce wages and benefits.

#### Cutting Overtime

Eliminating overtime is a first step toward reducing payroll costs. Surprisingly, this approach is often overlooked, even during times of full-scale layoffs. If companies never have a need for overtime, they may be overstaffed. It is important to weigh occasional overtime costs against overstaffing costs.

#### 'Givebacks': A Reduction of Wages and/or Benefits

Employees facing layoffs are usually willing to accept a pay freeze or a pay cut to protect their jobs. Even unionized workers and their unions have accepted such measures in order to save jobs. Reducing fringe benefits and the number of paid vacation days and holidays can also eliminate the monetary pressures for layoffs.

Intel avoided layoffs in this way. Toward the end of 1982, when the recession brought industrywide price cutting and sharp declines in profits to the computer industry, Intel chose to make salary cuts graduated by income instead of laying off workers. Lower-paid employees were not required to take cuts, but higher-paid employees took up to a 10-percent cut in pay. A year later, when sales and profits returned to former levels, Intel rewarded its employees by rescinding the salary cuts and giving bonuses of two weeks' pay to those on the payroll prior to January 1982 and one week's pay to workers hired after that date.[8]

### Productivity Bargaining

As the term implies, productivity bargaining is the application of collective bargaining to change work rules and other terms of employment to achieve a better match between workforce utilization and the technological requirements of the operations. The result is a significant increase in productivity. The United Rubber Workers, for example, agreed to abandon piecework, to accept continuous-shift operations, and to work weekends without special premium pay, thus allowing new capital equipment to be utilized more fully. The 1,100 employees of the Kelly-Springfield Tire Company plant in Tyler, Texas, agreed to these reductions in labor costs in return for company assurances to spend $250 million to convert the facility to the production of radial tires. The plant had been operating at about 80-percent capacity producing bias ply tires, which had declined in popularity. The new contract calls for changes in work rules, health insurance, and other benefits; conversion to an hourly pay system from a piecework system; and changes in work schedules to permit a seven-day-a-week operation at straight-time pay rates. Workers will also be retrained to operate the new equipment.[9]

In another example of productivity bargaining, in September 1984, Western Airlines received approval from the last of its four unions for pay cuts and productivity increases. The airline expects to save $300 million through 1986, when all of its labor contracts expire. Workers agreed to take a 12.5-percent pay cut, and the company agreed to establish quality circles among its workers, refocus its advertising strategy, and introduce six new fuel-efficient Boeing 737s to its fleet. Western also agreed to give its unions four seats on an expanded fourteen-member board of directors and voting rights on the 32-percent stake in Western that they had received in return for concessions made in 1983.[10]

### Productivity Improvement Programs

Various joint or cooperative approaches have been developed in the last decades by labor and management to provide a framework for improving productivity. Among the more popular of these approaches are labor-management (L-M) committees, employee involvement programs, and gainsharing (Scanlon plans, for example).

A joint labor-management approach was instituted in 1982 at the Chrysler Trim Plant in Detroit. This plant was considered "hopelessly noncompetitive" and was threatened with closure. Local management and union leaders organized an L-M committee to find ways to increase productivity. The new plan adopted by the parties led to a reduction in the work force, pay cuts for all workers, and substantial changes in work rules. The changes improved productivity by 25 percent and thereby saved the plant and over 500 jobs.[11]

In November 1981, Dana-Hyco, an Ohio firm engaged in manufacturing hydraulic equipment, was faced with a drastic decline in business due to the recession in construction. The labor force was cut from 350 to 94. Management and the United Auto Workers (UAW) local union representing the workers discussed a contract reopener to modify work rules and reduce wages in order to maintain the plant's viability. These changes were agreed to in a March 1982 letter of understanding. There was also an agreement to explore a Scanlon plan as a way to get the pay cuts back through productivity improvements and increased competitiveness. After studying their options, a task force of four persons (two salaried and two hourly) recommended adoption of a hybrid Scanlon plan that included training and other elements of quality circles, with the QCs acting as Scanlon production committees. Since the new program's inception, productivity has increased steadily. Within one year the company was able to begin paying bonuses to the workers.[12]

As the preceding two examples demonstrate, both givebacks and productivity improvement approaches have the potential for lowering costs to the point that the jobs in jeopardy can be saved—at least for the short run, and perhaps for longer periods of time.

### *Development of Alternative Products*

A third approach to improving enterprise viability and protecting jobs involves changes in management and marketing strategies. Under this approach, companies aggressively seek new markets or expand the market share for the products currently produced, and develop alternative products for the excess work force to produce, or develop new enterprises to employ these workers.

When the International Silver Corporation stopped producing tableware at its Meriden, Connecticut, plant in 1979, it searched for new ways to employ its remaining 250 employees (whose average age was 56, and average seniority was 26 years) and one-third of its factory space. The company succeeded in generating three new lines of work—stainless steel tubing, precision machinery, and machine tooling equipment.

As part of the conversion process, several hundred craftsmen were retrained to fill the new machinist jobs with money provided by the federal Trade Adjustment Act. By 1981, the company's recall list of laid-off workers had been exhausted and its doors were opened to new hires. For a short while the unit was the most profitable in the company.

International Silver was able to keep the new operation alive for three more years, allowing the workers to learn new skills and be retrained. Unfortunately the 1981–82 recession created such a financial strain on the company (including the loss of its best customers) that it decided to close the unit in 1982. The company hired a consultant to help close down the unit and find new jobs for the workers. A high proportion of the workers found jobs, in large measure because of the new skills and experience they had acquired during their previous three years at International Silver.[13]

Unfortunately, use of this approach is the exception rather than the rule. In most instances, management is not interested in entering into new lines of business solely for the purpose of keeping its existing work force employed, nor does it feel competent to do so.[14]

An "alternative use committee" of United Electrical Workers employed at the General Electric steam turbine plant in Charleston, South Carolina, presented management with eleven ideas for products that could be made at their plant, which is scheduled to close next year. Among these products were pollution-emission scrubbers, laser-tool systems, jet-engine parts, and modular systems for factories in space. Some 450 jobs will be lost if the plant closes. The union has tried to get GE to work with it in developing a new product, and has enlisted the aid of federal and state legislators to drum up support. GE is "discussing" the proposals with the unions, but "no decisions have been made," says a spokesman.[15]

Where the approach of developing alternative products is used successfully, there are several facilitating factors. First, management feels a commitment to providing continuity of employment for the current work force and to remaining in the local community. Second, management possesses an entrepreneurial spirit and is willing to go out and look for new business and take the risk of getting into new lines of work. Finally, some type of capital infusion must be available from retained earnings or from financial institutions.

### *Locating a New Plant in the Area*

The fourth approach to improving enterprise viability and retaining jobs is to locate a new company plant in the area of the facility to be closed or in the facility itself, rather than in a "green fields" site or another community. General Electric decided to build a $50-million, highly automated plant to make precision jet engine parts. Because of the cost and complexity of the equipment, GE indicated that the plant must be run twenty-four hours a day, seven days a week. The company had the option of building the plant in Lynn, Massachusetts, or going elsewhere. The Lynn GE employees were asked to vote on whether they wanted new jobs in Lynn and whether they would accept significant changes in their work schedules to get these jobs. The changes included working twelve-hour shifts for four days one week and three days the next, with time-and-a half pay after the first eight hours each day.

On June 26, 1984, the Lynn GE workers endorsed the new factory and work arrangements by a vote of 3,903 to 1,502. According to the business manager of the International Union of Electrical Workers local, the workers saw it as "a chance to save some jobs and create some new ones, taking advantage of the most modern technology available in their industry." He said, "This is a damned good tribute to the common sense of people here."[16]

### *Changing the Ownership Structure of the Enterprise*

The fifth approach to improving enterprise viability is to change the ownership structure. This can be done by actively seeking a new owner for the plant. The buyer may purchase the facilities to produce the existing products or to produce a new product or service. Alternatively, the ownership structure can be changed through worker purchase of the enterprise. This can be done by direct acquisition of the firm by the workers, by the adoption of an employee stock ownership plan (ESOP), or by formation of a worker cooperative. Worker ownership as an alternative to layoff has been especially attractive to workers in plants located in small towns where job opportunities are scarce. Threatened plant shutdowns often result from divestitures by absentee corporations that no longer find the local plant compatible with their overall financial or product plans.[17]

Experts believe that employee ownership can be a viable alternative to layoffs, but only in a limited number of situations. In 1983, workers at Weirton Steel in West Virginia voted to purchase the assets of the company from National Steel Corporation when the latter decided to dispose of the division. An ESOP arrangement was worked out, allowing the takeover by 7,900 workers and managers in January 1984, and making Weirton Steel the largest employee-owned company in the country. The workers agreed to a 20-percent cut in pay and benefits and a freeze on general wage increases for six years. The $386-million purchase price will be paid over the next five years. In the first quarter of 1984, the company showed a modest profit of $9.7 million, the first profit since 1981. Profits for the entire year amounted to $60.6 million, making Weirton one of the two profitable U.S. integrated steel makers in 1984. Weirton's success can be attributed to a combination of factors, including relatively modern facilities, a favorable market for its products, a substantial reduction in wage costs, and a highly motivated work force.[18]

## Implementing New Human Resource Techniques

The second internal restructuring technique in an effective economic adjustment program emphasizes the importance of workers; it focuses on methods for ensuring employment continuity and achieving the advantages of change and restructuring. This approach involves the application of human-resource management techniques.

Conceptually, the various measures used by firms to prevent layoffs can be grouped into four basic categories, which are described as follows.

### *Reducing the Number of Workers*

The objective of this approach is to reduce the number of workers needed in the enterprise. This can be accomplished through attrition and hiring freezes, encouragement of temporary leaves, early retirement, and voluntary resignation inducements.

#### Use of Attrition and a Hiring Freeze

Attrition, sometimes called restrictive hiring, refers to reducing the number of personnel by not replacing workers who leave. Since organizations typically lose employees through turnover, they can reduce their labor forces by not hiring replacements. With careful planning, an organization can avoid layoffs through attrition. Only replacements that are absolutely essential to the organization are hired.

The advantages of this approach are that it enhances workforce morale and generates confidence in management's ability to handle the challenges ahead. The disadvantages involve the loss of "new blood," and the fact that shortages will develop in certain high-turnover occupations, placing pressure on some workers to work overtime, and generating fatigue. The hiring freeze can also be extended to a freeze on promotions.

Chase Manhattan Corporation, the large New York bank-holding company, has been conducting cost-cutting moves of this kind. The company reduced its 1984 operating budget by 6 percent and has announced that it is eliminating 1,100 jobs. The cuts will come from attrition in 600 positions and from eliminating 300 budgeted but unfilled jobs. A spokesman for the company has said that it plans to dismiss an additional 186 workers throughout the company. The company is also considering an early-retirement program that would eliminate an additional 500 positions.[19]

#### Voluntary (Temporary) Leave

Some companies have encouraged employees to take temporary, unpaid leave voluntarily during a period of economic difficulty. In most cases the company has arranged for benefits to be continued during the time off. For example, in 1981, Control Data Corporation established a job security program, called the "rings-of-defense strategy," during a downturn in business. As part of the program, volunteers were asked to take time off without pay to pursue schooling or to stay home with their children. The nearly 2,000 workers who did this received fifty dollars a month to maintain their company benefits. During the last recession, Hallmark Cards, Inc., invited workers to take voluntary time off without pay but without losing benefits. Several hundred employees agreed to do so.

### Early Retirement

Depending on the demography of the work force, it may be possible to reduce the number of personnel through early retirement. This approach becomes feasible if the company is top-heavy with long-service workers.

Typically, a company offers employees age 60 or older an opportunity to receive full, normal retirement-age benefits without waiting. A cash bonus based on salary and years worked and supplemental payments until Social Security benefits begin may be added. This approach eliminates the payroll costs for the senior workers and also provides advancement opportunities for younger workers who might otherwise be lost to competitors.

Faced with a continuing decline in profits, the Eastman Kodak Co. announced a plan to induce employees to leave the company voluntarily. One part of this voluntary separation plan permits employees age 55 to begin drawing pensions ranging from 55 percent of normal rates for those with 21 years of service to 100 percent for those with 30 years of service. The eligible workers who retire also receive one week's severance pay plus an additional week for each year of service up to a maximum combined total of 26 weeks of pay.[20]

One of the disadvantages of early retirement is that often the best people are lost as a result of the program. This is particularly true of a voluntary program, since the company cannot control who accepts the proposal. In addition, the incentives needed to attract sufficient recruits for early retirement may pose a heavy financial burden. Also, laying off senior workers can lead to costly legal battles, employee protest, and lowered morale.

### VOLUNTARY RESIGNATION INDUCEMENTS

In a few instances, companies have provided financial and other inducements to encourage employees who would not normally qualify for early retirement, to quit voluntarily and permanently. Resignation inducements, called "window plans," provide a fixed period of time during which the employee can choose to leave in exchange for the benefits proffered. These plans are sometimes targeted at a specific group of employees. However, the disadvantages that apply to early retirement (high costs and possible loss of the best employees) are also applicable to voluntary resignations.[21]

In an effort to reduce the number of staff in high-wave brackets, Northwest Airlines offered $20,000 lump-sum payments plus fringe benefits to 200 senior flight attendants if they would give up their jobs. The offer was targeted at 1,150 of the company's attendants hired before July 1972. The offer also provided for lifetime free and reduced-rate travel privileges for attendants and eligible family members.[22]

## *Balancing Operations with Buffers*

The assumptions underlying the adoption of manpower and production buffers are that layoffs and rehires create instability in the enterprise, damage employee morale, are expensive to administer, and result in the loss of valuable employees. Consequently, employers should strive to maintain a lean work force. This can be facilitated by adopting a comprehensive manpower-planning system to project employment needs accurately and by devising means to regulate employment as carefully as possible. During serious downturns in business some of these approaches can be reversed temporarily to provide work for the firm's own employees. Among the possible approaches are

- *Developing a more flexible work force through careful selection and training,* supplemented by contract provisions (where applicable) that permit transfers among jobs. Using slow periods and downtimes to provide worker training and retraining as an alternative to layoffs can provide substantial benefits to employers. Such an investment can help to achieve employment stability while maintaining a competent work force that remains abreast of technological changes.

- *Using manpower buffers to handle fluctuations in work load.* Buffers include part-time and temporary employees, retirees, and subcontractors, as well as the use of overtime in peak-volume periods to handle the work that exceeds the capacity of the full-time work force. (When a plant operates seven days a week, it might be feasible to use a separate weekend crew as an alternative to excessive overtime by the regular work force.)
- *Taking on additional products or service lines for which the demand will complement the existing product's demand,* that is, taking on products with different sales cycles.
- *Warehousing goods during slack demand and offering incentives to customers to stockpile during slow periods.*
- *Contracting short-term work or work that requires fluctuating numbers of employees*—maintenance and construction work, for example.

Companies have experimented with these approaches in various ways. The IBM Corporation attempts to buffer its inside employment on a one-to-one basis for the work that is subcontracted out. This work can be brought back into IBM during economic declines. The Boeing Corporation, after its bad experience with cutbacks in the 1970s, increased its subcontracting from 30 to 50 percent of all of its activities. Pitney Bowes, Inc., set up a special training center in Stamford, Connecticut, to teach people familiar with springs and gears how to solder chips on computer boards. At one point, about fifty employees were assigned to work previously done by outside contractors.

Worthington Industries, Inc., has avoided layoffs by shifting people to other parts of the company. At times, production workers paint walls, sweep floors, or repair equipment. Control

Data introduced special work-force action teams (SWAT) composed of CDC employees who typically work for ninety days at jobs previously done by outside contractors. About 300 employees have worked at SWAT jobs, such as fixing the sprinkler system, painting basements, and purging old files.[23] Finally, IBM has used retraining to prepare workers for new assignments and shifts in product demand.

None of the buffering alternatives is ideal. Temporary personnel agencies typically charge high rates; direct hiring is less costly. Long periods of overtime reduce output per hour, require expensive premium payments, and cause resentment when overtime is discontinued. Inside workers resent outside contractors. Internal transfers can be disruptive to receiving units. But, if workers know that these programs are part of an overall job security strategy designed to protect their jobs, they will be much more receptive to the balancing concepts and buffer techniques.

## *Work Sharing*

A third line of defense in preventing layoffs is work sharing, or spreading the available work. If the necessary cutback is too large to be met by attrition, early retirement, or other voluntary means, the only recourse may be shorter work weeks for everyone, or layoffs for some employees, usually the newer ones.

There are several versions of work sharing. Their use depends upon which state the firm is located in, the nature of the industry, whether a labor agreement exists, and the contract provisions in force.

### Reduced Hours

If the labor surplus appears to be a short-term problem, many organizations prefer to reduce the number of hours each employee works and to keep all employees. Thus, instead of continuing a forty-hour work week, management might decide to cut each employee's wages and hours by a fixed percentage.

Nucor Steel Corporation has a policy that once an employee completes a three-month probationary period, he or she is assured lifetime employment. During the 1981–82 recession, when times were tough in the steel industry, no Nucor workers were laid off. Instead, production workers were cut back to four- or three-day work weeks, with resulting cuts in pay. When the market for steel improved sufficiently, the workers returned to full five-day schedules.

### Job Sharing

A specialized form of work sharing not normally used as an alternative to layoffs, but which could be considered under certain circumstances, is job sharing. A full-time position is divided into two part-time positions, and the duties and responsibilities of the job are assigned to two employees. Usually the two employees share the responsibilities and accountability equally, as well as the pay and benefits.

The benefits of job sharing are high productivity; increased flexibility in scheduling work assignments, allowing for better coverage of peak periods; reduced absenteeism and turnover; improved job training; better employment options for people who cannot perform a full-time job; and the unique individual skills that the two workers bring to a single job by working half day or by rotating work assignments—one week on, one off.

The disadvantages of job sharing include the administrative difficulties involved in splitting benefits, and the increased supervision, paperwork, and communication problems involved in employing more people.

In Britain, the General Electric Company (GEC) introduced a job-sharing program to provide employment opportunities for young people who were having difficulty finding employment. Because of the high youth unemployment in Britain, the government established a "work experience" program that pays unemployed youth a modest weekly wage for a six-month period while they gain work experience with firms willing to take them in. GEC built job sharing into this program in order to distribute the available permanent employment as widely as possible and to provide a bridge to full-time employment in the company.

Toward the end of the youth's six-month work experience period with GEC, the company begins to search for a vacancy in a permanent position suitable for job sharing. When such a position is located, it is offered to a "pair" of young persons who are finishing their initial work experience. If both workers agree to take the new job, each one signs a special contract to work half the hours and to accept half the pay for the job, including fringe benefits. The contract lasts for eighteen months.

Once they sign up, the job sharers are on the GEC payroll and are no longer paid by the government. By the end of the eighteen months, GEC strives to offer one of the sharers another full-time permanent job, leaving the other one to work full time in the original shared position. As part of the plan, the job sharers must spend one day a week during their free time attending a local community college. According to GEC and the unions representing the workers, the job-sharing program has been quite successful and has been well received by all concerned.[24]

### Layoff Rotation

In this version of work sharing, the affected workers may work a specified percentage or period of time (e.g., four weeks) followed by a specified percentage or period of time on layoff (e.g., one week) throughout the cutback period. While on layoff, workers are able to draw supplemental unemployment benefits (SUB) and unemployment insurance (UI) benefits. (This is a useful alternative for employers located in states that do not have a short-time compensation UI program.)

When Climax Molybdenum was faced with the necessity of closing their mine in Colorado in September 1982 because of decreased demand, the company and union devised a plan to keep over half of the 800 miners slated for layoff as rotating members of a small maintenance crew. The maintenance crew consisted of 100 job slots, filled every two months by a different set of employees. After two months' work, employees became eligible for unemployment insurance benefits. Employees on the work crew earned $450 a week gross pay and those who had become eligible for unemployment received $185 a week in UI benefits. The program ran from August 1983 until April 1984. If employees were not available to work on the rotating maintenance crew because they had taken another job, their recall rights for permanent work, based upon seniority and qualifications, were unaffected. Because many of the miners had to take on new tasks as part of the maintenance crew, they received on-the-job and classroom training as part of the program.

One of the benefits to the company of the layoff rotation plan was the availability of an experienced and loyal work force to start production when the recession ended. According to a company spokesman, "[E]mployees had a better feeling about the company because of the program, and . . . the company was able to keep the mine maintained, so that we could quickly start up operations once demand for our product picked up."[25]

### Short-Time Compensation: California Work-Sharing UI Plan

This version of worksharing (or short-time compensation as it is sometimes called) has been used in Europe since the 1920s, but was first tried in North America, in Canada and California, only in the late 1970s. Because of the success of the California experiment, which began in 1978, short-time compensation has been implemented or is being implemented by a number of other states, including Arizona, Oregon, Florida, Washington, Maryland, and Illinois. In these states employers have the option of using work sharing as an alternative to layoffs. Employees receive partial unemployment insurance benefits for time lost in work reductions.

Under the California program, if a firm reduces its work week and pay level by 20 percent instead of laying off 20 percent of its work force, employees working four days instead of five can receive one day's worth of weekly unemployment insurance benefits. For example, if a worker were eligible to receive $100 in weekly benefits on full layoff, he or she would receive $20 for each day lost on a work-sharing plan.

Participation in the program is strictly voluntary, but union consent is required if employees are covered by a collective bargaining agreement. To encourage employers to use the program, California has kept the administration simple and the paper work minimal. There are few restrictions on employers. Participating firms are not required to document that a reduction in hours is necessary before their employees can receive benefits, nor are there restrictions on the availability of fringe benefits or on hiring, firing, or transferring employees.

Restrictions on employees are also minimal. Only those employees working for firms that have indicated that their workload reduction is permanent are required to look for other work.

According to a 1980 study, California's work-sharing program benefited both employers and workers by diffusing the impact of a business downturn, fostering job attachment, keeping skills fresh, and allowing workers to retain fringe benefits. The study reported,

> A cost-benefit analysis indicates that while work sharing compensated by unemployment insurance can result in a marginal loss to high-seniority workers, overall it tends to 'minimize losses to all parties . . . and to improve the aggregate economic well-being of the total group.' . . .
>
> Under the short-time compensation, all workers would maintain some degree of job attachment as well as all or most of the fringe benefits which accompany employment. When the value of these benefits is added to net pay, the average employee under short-time compensation would maintain 94.2 percent of the total full-time 'take-home' compensation as opposed to 92.5 percent under layoffs."[26]

## *Moving Work or Workers*

The last line of defense to prevent layoff involves moving work to a location where company workers are available, or moving workers to available work outside the company but retaining them on the company's payroll during the period when they are seconded elsewhere.

Provincetown-Boston Airline, Inc., (PBA) has experimented with this option. The nation's third-largest commuter airline, PBA specializes in serving the vacation trade in seasonal markets. In the spring and summer, PBA primarily serves traffic between cities and resorts in the Northeast; in the fall it follows vacationers south to Florida. Because of their concern for their employees, and to maintain their firm's success in a highly competitive business, the airline moves one-third of its employees and most of its fleet to their winter headquarters in Naples, Florida, every fall to avoid layoffs. In the spring, employees move back to Provincetown, Massachusetts, to provide service in the Northeast.[27]

During the recession of 1981–82, Hallmark Cards, Inc., loaned about 600 production workers to other departments to do work that otherwise would not have been done (such as repainting) or to work in the community. A dozen workers spent seven months weatherizing seventy-five homes in a neighborhood near the headquarters. One worker was made a supervisor at a skating rink in the Crown Center, a complex of hotels and shops adjacent to Hallmark's buildings that is owned by the company.[28]

### Preparing Workers for Labor-Market Reentry

This approach acknowledges that, in certain situations, after all other efforts to protect employees have been exhausted, workers will have to be laid off permanently. Under these circumstances, enterprises must focus on external restructuring, that is, on moving displaced workers to new jobs.

Permanent layoffs and plant closures generally occur against a backdrop of economic change in which the changes are of such magnitude that they cannot be accommodated within the existing industries and thus require the shifting of workers from declining to growing industries. Organized support of workers during this phase can facilitate this kind of transition. Specifically, employers can assist workers by planning for bridging financial support, creating an organizational structure for reemployment programs, motivating workers to reenter the labor market, and targeting and developing jobs.

#### *Providing Bridging Financial Support*

It is important to consider the issue of income support during the transition period and to structure benefits (e.g., severance pay, SUBs, medical insurance, and pension portability) to facilitate rather than deter reemployment. Companies should allot adequate time before a permanent layoff or shutdown to prepare workers for new jobs. Advance notice, careful planning, and effective use of the time preceding termination or the closing are essential ingredients of a successful transition program. A well-designed transition program will strive for the shortest possible unemployment period. This can save the company money in the long run. If bridging financial support is properly structured, it can cushion the income of workers during job search, retraining, or shortfalls in pay during the early period on a new job.

### *Organizing to Serve Displaced Workers*

In addition, employers can assist workers in their transition to new employment by

- Negotiating and/or implementing a plant closing agreement (if the workers are represented by a union);
- Creating an organizational structure in the form of a reemployment center;
- Staffing the center with competent personnel and delegating sufficient authority to do the job;
- Obtaining sufficient resources (internal and external) to carry out the work of the reemployment center and outplacement program;
- Locating the center for availability and convenience of services;
- Opening the center in a timely manner—before the workers are discharged; and
- Establishing working relationships with other agencies that can help provide the needed services.

### *Motivating and Preparing Workers*

Motivating and preparing dislocated workers to seek other employment is of critical importance. Long-service workers lack knowledge of the labor market and job-seeking skills. Employers can help these workers by

- Providing all workers with an orientation regarding benefits and other services that will be made available to them;
- Arranging for the testing and assessment of workers to determine what education and training they will need before entering the labor market in search of new jobs;
- Providing job-search skill training for all workers;
- Making available counseling (personal, financial, medical, marital, drug, and alcohol) to assist workers in dealing with their personal problems and career changes;
- Arranging for remedial education (adult basic education, GED, etc.) for workers who lack basic skills; and

- Arranging for occupational training and retraining for workers who need and desire it.

### *Targeting Jobs and Developing Jobs*

Targeting jobs and developing jobs to which dislocated workers can be moved are also important activities in the external restructuring process. Tasks in this area include

- Assessing the skills and abilities of the displaced workers;
- Considering transfer rights and geographic relocation;
- Identifying potential employers who can use the skills possessed by the workers;
- Assessing the labor market demand for workers generally, and identifying the types of skills needed;
- Contacting employers and telling them about the workers available; inviting employers to come on site and interview potential candidates, or arranging for workers to go for interviews without penalty or loss of benefits; and
- Using labor-market intermediaries (e.g., Job Service, outplacement consultants) effectively.

A number of excellent handbooks and other materials are available to help employers, workers, and communities to plan and organize outplacement programs for workers who must be displaced through permanent workforce reductions and plant closures.[29]

### *Ford's Cooperative Job Security System*

As a result of the automobile depression between 1979 and 1982, Ford Motor Company and the UAW negotiated a new collective bargaining agreement in February 1982 that provides the basis for efforts to develop a job security program and to assist workers displaced through plant closings or permanent cutbacks in operations.[30] This new cooperative, systematic approach to responsible plant closings includes the following basic components:[31]

*Actions are based upon the collective bargaining agreement.* This agreement specifies that there will be six months' advance notice of closing; consultation with the union at the national level; company-provided counseling and outplacement assistance programs; local plant and union participation; and distribution of contractually stipulated benefits, including severance benefits, health insurance, and preferential placement at other Ford plants.

*The company and union are firmly and unequivocally committed to assisting displaced workers.*

*There is full, joint union-management involvement, not token union participation, in the planning and implementation of programs.* The mechanisms used to accomplish this may vary, depending on local circumstances.

*Technical assistance and financial support are made available from the UAW-Ford National Development and Training Center to help initiate and underpin agreed-to services and training programs.* Additional funds are sought from public agencies and other sources to supplement company and center resources.

Immediately after the closing of Ford's San Jose Assembly Plant was announced on November 18, 1982, an eight-member local Employee Development and Training Program Committee (EDTP) mobilized resources to help the 2,400 workers.

Four days after the announcement of the closing, and six months before the actual shutdown, the EDTP committee and Ford management set up an employment and retraining center in the plant staffed by two supervisors and two hourly union members qualified to function as training coordinators. Space in the plant was also made available to house the staff of other public agencies, including the Job Service and the local adult education program.

Delivery of services to the Ford San Jose workers began immediately and continued for twenty-two months, until September 30, 1984. The comprehensive array of adjustment services that were made available on site and in a timely manner resulted in many beneficial outcomes at San Jose. During the six months between the announcement of closure and the final shutdown of the plant, productivity and quality remained high. In addition, over 2,000 workers took advantage of orientation, assessment, and testing programs and over 2,100 workers enrolled for in-plant vocational exploration eourses conducted by plant personnel. Nearly 800 employees enrolled in adult education courses to improve basic skills in subjects such as math and English as a second language. One hundred and eighty-three of these workers earned their high school diplomas or passed the GED. Over 750 employees enrolled in intensive full-time vocational training courses, of which 500 involved technical training. Four hundred and thirty-eight employees went through a job-search skills training workshop. The dropout rate of workers in the vocational training classes was less than 10 percent, indicating good student preparation and motivation.

By September 30, 1984, over 80 percent of the employees who took training were employed as were over 83 percent of those who had reentered the labor market. Finally, there was a lower incidence of drug and alcohol abuse, child and spouse abuse, and health problems than in similar situations elsewhere. There were no suicides. (A contemporary auto shutdown had ten suicides among the displaced workers in the first two years after the closure.)[32]

The comprehensive and successful worker adjustment program implemented by Ford and the UAW for the first time at San Jose demonstrated that a cooperative labor-management approach can be used effectively in dealing with the serious problems of worker dislocation arising from a plant closing. Furthermore, the basic components of the UAW-Ford job security program, which were first outlined in the 1982 collective bargaining agreement and expanded in the 1984 agreement, are a landmark in American industrial relations that can serve as a model for other American business enterprises and industries.

## Fostering Job Creation and Economic Development

The fourth component of an effective economic adjustment program is the fostering of job creation and economic development. The need for government measures and policies to create new jobs and to facilitate economic development of a particular community or region stems from uneven structural changes that sometimes leave major labor market imbalances. For example, a community may be losing blue-collar jobs in a basic industry like steel or copper while it is gaining professional and clerical jobs in services or high-technology industries. These imbalances can occur among labor-force groups, among workers in different occupations, or in the age and sex composition of employment. Naturally, declining and growing job opportunities affect earnings and quality of job structures in an area. A number of approaches to stimulate job creation have been tried in the U.S. and Western Europe, with varying degrees of success.[33]

### *Strategic Approaches*

There are various strategic approaches for creating jobs. These include

- Providing public financial incentives to encourage investment in a particular community or region; this effort can involve concentrating public outlays in areas designated as "problem" areas or as eligible under Urban Development Action Grants (UDAG), the Economic Development Administration (EDA), and other grant programs; this effort can also involve decentralizing the allocation and administration of regional policy funds;
- Extending financial aid to enterprises facing cutbacks to encourage them to find alternate products;
- Creating jobs in the public sector;
- Giving subsidies to private firms to create new jobs or encourage relocation of workers to new jobs; and
- Encouraging private firms to initiate and implement programs to create jobs using their own resources.

The last approach, that of encouraging private firms to create jobs, has been successfully used during the past decade by British Steel and Pilkingtons Glass in Britain, and by Rhone-Poulenc and Cie. de Saint-Gobain in France. In both instances, the firms make surplus buildings and facilities available at modest cost, and provide financial and technical assistance to nurture new firms—mostly small ones—in the hope that they can hire the dislocated workers in the local area.[34]

### *Evaluation of Job Creation Efforts*

How successful are job creation and economic development efforts that are undertaken on a local and regional basis? Experience in the U.S. and abroad suggests that the results are mixed.[35] Regional economic development policies do not directly help (at least not in the first instance) workers being displaced from their places of employment. Typically, when new jobs are created they go to younger workers in the labor market or to others who transfer into the area to take advantage of the new opportunities. Middle-aged and older workers, usually the bulk of those displaced, fill other jobs available in the labor market, creating a kind of secondary effect or benefit.

The creation of jobs by individual enterprises has a positive impact, but the number of jobs created represents only a fraction of the workers being displaced. Most job creation tends to focus on small businesses, and while small businesses do generate jobs, the numbers are small relative to the need. Not many displaced workers benefit from the new jobs created directly or indirectly by their former employer.

How an area fares in the long term after experiencing substantial work-force displacements depends on a number of factors, particularly the state of the economy and the relative size of the cutbacks. The most successful programs have been in areas where the cutbacks have been large enough to shock the area and to engage everyone's attention, but not so large that the challenge could not be met.

## Conclusion

We Americans pay an unconscionably high price for our lack of interest in job security. There are good reasons for adopting new approaches to job security, for job security offers substantial benefits to workers, businesses, and society. Frequent use of layoffs can be financially costly to the enterprise, disruptive of operations, destructive of morale, and detrimental to productivity. Conversely, job security creates a climate for growth and change, two essential elements for success in a highly competitive and constantly changing business environment. Greater flexibility and adaptability, increased loyalty of workers, and higher productivity and profits are some of the direct benefits to firms that adopt these job security concepts.

The time has come to go beyond verbal commitment. We need to follow the examples of those few exemplary employers in the U.S. and of our European and Japanese trading partners by adopting the basic philosophy and principles of job security—that hiring an individual carries with it the responsibility to manage the affairs of the business well enough that the employee will always have a place in the enterprise, assuming he or she performs well. Preventing layoffs will then become an accepted component of an employer's overall job-security program.

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