

Attention, CEOs: Here's proof that layoffs aren't always the best solution

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When I wrote recently about the need for a more open conversation about the damage layoffs do, I expected to take my lumps from those who would say I don't understand the needs of big business, or that I am an apologist for incompetent workers, or that I am some sort of wacko communist.

Instead, I received a bushel of thoughtful e-mails from those who are genuinely worried, and in some cases angry, about the way in which we've become a disposable work force.

My question about whether it is morally defensible for CEOs of profitable companies to accept tens of millions in pay while destroying the lives of workers through layoffs had particular resonance. Some suggested that when it's time for layoffs, the CEO should go first. Another said a CEO should give up his pay to save jobs.

The idea struck me as silly at first. Then I realized that CEO Mark Hurd's 2008 compensation at Hewlett-Packard, which recently announced more layoffs despite a \$1.7 billion quarterly profit, was enough to save 340 jobs at \$100,000 each. Why not provide an incentive to save jobs the way we provide incentives to boost the stock price?

And then there was e-mailer Mike Glish, who offered a solution in the real-life example of Irwin Federman, "one of the best leaders I ever met."

Glish worked for Federman as an IT guy at Monolithic Memories in the 1980s. The Sunnyvale semiconductor company, which was eventually acquired by AMD, had a no-layoff policy, despite the roller-coaster revenue reality that chip companies live with.

So, I called Federman, who is now a general partner at U.S. Venture Partners in Menlo Park, to find out whether he thought a no-layoff policy was practical today.

The answer is complicated, but there's no question that Federman's experience as CEO provides other CEOs with the cover they need to institute their own no-layoff policies. It turns out a CEO need not embrace the image of a hard-nosed cost-cutter who believes that no one is indispensable. Instead, he or she can embrace Irwin Federman. He or she can tell board members and shareholders and friends at cocktail parties that avoiding layoffs makes good business sense.

Federman says that of course he wanted to avoid inflicting the emotional pain of layoffs. But his main reason for the no-layoff policy, he says, was strategic. As in business strategy.

"If we could keep our work force intact and other folks were laying off, as things improved our response time would be faster and we would emerge more quickly and more profitably than our peers," Federman says. "And that, in fact, is what happened."

I should point out a couple of things here. Federman said that while "no layoffs" was the working policy at Monolithic, it was not absolute. He knew it was possible that things could get so bad that layoffs were the only answer. But for him it would be the last resort, not the first choice.

And Federman told me he would not be so presumptuous as to say every company today could do what Monolithic did in the 1980s. But some no doubt could.

"You possibly can afford it," is his message to CEOs who argue that they can't afford to retain workers. "You can afford to keep them in place. You just have to be a little more creative.

At Monolithic, Federman ordered all workers to take one unpaid day off every other week — effectively cutting payroll by 10 percent.

Federman started to notice advantages to the company beyond the obvious. Workers bonded over a sense of shared sacrifice. Managers came in on their furlough days. Employees were more careful about spending company money.

"When people are making a personal sacrifice, their spending habits change," he says. "When you're in pain, you become very sanctimonious."

A different company with a different culture might have reacted differently, Federman acknowledges. At a company with a culture of superstars, top performers might be reluctant to sacrifice to save the jobs of losers.

"You can't just take this as a recipe in a cookbook," Federman says.

But if you're a CEO contemplating layoffs, you might give it a try for all the reasons Federman suggests. And maybe one more:

Twenty-five years later, Mike Glish still remembers his old boss as one of his heroes.

And that's something money can't buy.

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