It was early spring of 2009, and the leadership team of my division was visibly upset. Earlier that day, another part of our firm had laid off most of our entry level customer service professionals — well educated, overachieving, recent university graduates. I was surprised at how emotional they were.

It had been about two months since the financial crisis had forced this same group to lay off a large portion of our own people, the first layoffs in our history. We’d grieved in the days before knowing we were going to tell our friends and colleagues that they were losing their jobs in the worst labor market since the Great Depression. We rehearsed every aspect of the conversations and logistics repeatedly to make the upsetting conversations as easy on our people — and us — as possible. Much to my surprise, with only one exception, everyone told me how sorry they were that I had to do these conversations.
When our leadership team met after the last conversation ended, we were subdued, but calm.

When I asked why everyone was so much more upset with this second round of layoffs than when we had to let own people go, there was silence. Then, the senior member of my team said, “The people we let go have been working for a couple of decades. They understand how the world works. But at 22, you aren’t supposed to learn that even if you work hard and do a great job, you can still get fired.”.

**SUMMARY**

- **Layoffs typically produce negative consequences for organizations and the displaced employees.**

- **How organizations handle career transitions today is more important than it was during the financial crisis.**

- **The most effective career transitions are human-centric.**

- **Helping displaced employees find their next job is an insufficient ambition.**
NEGATIVE LONG-TERM IMPACTS OF LAYOFFS

Many scholarly studies back up this intuitive understanding of the emotional impact layoffs have on the employees who lose their jobs and those who remain with the firm.

Here’s what the research says about the negative impacts on the employees displaced during the financial crisis after about a decade:1

• Significantly lower income persists.
• Reduced job opportunities.
• Greater likelihood of being displaced again.
• Contraction of social and professional support networks.
• Increased mental health issues.
• Disproportionate physical health problems.
• Substantially lower trust in organizations and society in general.

Researchers speculate that these negative consequences will decrease over time, but the data after a decade hasn’t supported that trend.

On average, organizations suffer as well, including:2

• Impaired reputation.
• Decreased shareholder value.
• Reduced long-term performance.
• Lower employee engagement, commitment, discretionary effort, and mental health.

The magnitude of these impacts generally grows the larger the layoffs and the younger the firm.

Of course, these results aren’t inevitable. Some firms enjoy increased performance, employee morale, and wealth creation. Some displaced employees jump to better career paths and happiness. But the odds are against them, especially if they don’t mitigate the negative impact on both remaining employees and displaced employees.

1 Wachter, Song, Manchester (2011), Department of Economics, Columbia University Discussion Paper
Laurence, J. Social Science Research 50 (2015)

Urul, N and Armstrong-Stassen, M. Industrial Relations (April 12, 2015)
LAYOFFS TODAY
POSE GREATER RISK

The COVID-19 crisis may at a glance look like it is producing similar risks to employees and organizations as the financial crisis over a decade ago. When it comes to managing the potential negative consequences of layoffs, though, organizations face significantly different considerations.

First, the projected economic impact is much larger from COVID-19. Goldman Sachs has forecasted a 50% higher annualized unemployment rate by mid-year as well a precipitous GDP decline far beyond what we encountered in 2008 and 2009. The nearly 10 million employees who filed for unemployment in the two weeks at the end of March dwarf all previous claim levels. That means it’s going to be a lot harder to find a job, at least in the short-term.

Second, in many countries, losing your job may mean you can’t afford health care. That was true in 2008, but there wasn’t a viral pandemic.

Third, social media is fundamentally different today. In 2008, Glassdoor was only one year old and Facebook had just introduced the like button. There was no Instagram or Snapchat. Today, layoffs play out in real time as employees share and vent.

Putting all that together, organizations will be laying off people in what’s probably the worst job market in history, where the displaced employees already have very serious health fears that losing your job only exacerbates. Also, in the current crisis, we shouldn’t underestimate the potentially adverse emotional impact someone experiences when they learn they have lost their job while they are in the home, a place traditionally viewed as a refuge from such upset and danger. That’s not a good recipe for glowing social media reviews.
Layoffs are about humans, not organizations. Failing to take a human-centric approach is what exacerbates harm to the organization.

Remaining employees

Human-centric layoffs focus first on the mental health and engagement of your remaining employees.

First, encourage employees to have counseling. Remaining employees routinely suffer from survivor’s guilt and struggle to adjust after layoffs (and furloughs). Even one counseling session can significantly improve their ability to cope and recover. Unfortunately, most employees won’t take advantage of counseling. Requiring employees to meet with a counselor — in person or virtually — simply for an explanation of the benefit, while allowing time for an impromptu session, frequently results in employees remaining for counseling.

Second, quickly follow layoffs with changes that give your people reason to believe that they won’t find themselves facing the same negative circumstances and potential for layoffs in the near future. Plan to announce new initiatives, leadership responsibilities, and other opportunities the week after layoffs. Paint a vision for where the organization, department, or team are headed — literally have them take a picture in their mind of how it will look. Give your people some additional control regarding how to make that future materialize. Focusing on the future and giving your employees more control will help most of them recover faster emotionally, and engage them in their work.

Third, demonstrate to them that they will be treated well if they lose their jobs. That requires treating the displaced employees well.
Displaced employees

Most displaced employees feel tremendous pressure to find another job quickly. Lost income and, in many cases, lost benefits may threaten basic safety and security for themselves and potentially their family as well. That’s especially true in the current COVID-19 crisis. That pressure often forces them to take the first available job, even if it is a step back in terms of compensation, responsibility, career aspiration, job satisfaction, or other factors. That drives many of the long-term negative consequences for the displaced employees and the perceptions of remaining employees.

Research suggests that employees who lose their job in an involuntary layoff suffer greater non-pecuniary consequences than employees fired for cause. Fired employees associate their dismissal with negative performance, real or perceived, and generally believe that they will have control over their fate in their next job. Layoffs, however, tend to make employees feel that the organization has treated them unfairly and that they have no control over their own fate. We know that those negative emotional impacts persist for at least a decade. That’s the emotional impact that upset the senior leader in my story earlier.

We know that the negative emotional impacts of being laid off persist for at least a decade.
Organizations can take steps to mitigate these effects, reducing the negative impact to displaced employees, better containing reputational harm, and sending a reassuring message to their remaining employees.

1. If it is likely you will have to layoff or furlough employees, act sooner rather than later, and make sure that you free up enough cash flow to properly invest in support for the remaining and displaced employees. Acting one week earlier, or slightly increasing the number of displaced employees can free up substantial investment to provide high quality support to all the displaced employees. We naturally want to delay layoffs and try and protect that one extra job, but often we don’t weigh the negative impact on all the displaced and remaining employees that those decisions create if it compromises our investment in supporting them.

2. Be especially cognizant of the unique circumstances in which notification occurs. People have limited access to their professional and social networks for support. Notification also most likely occurs while they are in their home, a location that historically provides safety, a retreat from such negative events.

3. Look for opportunities to provide displaced employees some choice. Voluntary layoffs can reduce the number of people who lose their jobs without any control. Where voluntary layoffs aren’t possible (or sufficient), consider giving employees a choice among supplemental benefits, such as counseling or additional training, in addition to their standard career transition services.

4. Provide career transition support that goes beyond helping them draft resumes, prepare for interviews, and find job opportunities. Except for hourly workers who usually have limited expectations of career transition support, those services are table steaks. Offering them alone does little to mitigate reputational harm or provide assurance to your remaining employees. Assessment and skill development, however, can provide practical and emotional benefits. A trait-based assessment will help identify and highlight the individual’s strengths, and allow them to identify jobs with a stronger fit, but possibly more importantly, can help restore any lost confidence. Guided skills development (as opposed to a large self-navigated library) increases the likelihood they will find a new job quickly and succeed in it, and again, restore lost self-confidence.

5. Don’t end your engagement with displaced employees the moment they find another job. The second job they take after being displaced, whether by promotion or moving to another role or organization, may be more important than the first one. The second job decision usually doesn’t come with the same time pressure as the first, and it represents an opportunity to recover from any setbacks caused by the displacement.
Similarly, don’t end your engagement with displaced employees simply because their formal career services program ends. The longer someone is out of work, the more support they need. Researchers have found that after six months of unemployment, the probability of finding a job falls to 12%, and that number gets worse over time.3

You can support employees long-term with little to no financial cost, empowering them to reverse the drivers of long-term negative impacts. Ensure your career transition support connects them to displaced employees from other companies who can provide ongoing support in identifying future opportunities as well as emotional support given their common experience. Also, ensure that your career transition support includes the creation of a long-term development plan that extends well past their next job.

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Get more insights like this in our new report, written by and for leaders working to get through and beyond this crisis.

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