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# The 'Re-Engineering' Dilemma

## Dilemma

In this tough economy, the leadership of my company set a target for desired cost reductions. Included in the equation are cost savings from "re-engineering" the workforce (meaning layoffs), such that the size of some executive bonuses are directly linked to the cost savings from layoffs. I would be curious to hear what others think about the ethics of this situation.

### Response from Cassandra Faurote, CCP, SPHR, Total Reward Solutions

I am not sure how you can continue to get employee engagement once the staff finds out that executives were paid bonuses based on the cost reductions achieved through layoffs. This is the kind of behavior that will cause employees to flee once the economy turns around. Staff will remember how they were treated, and more importantly, how executives acted and were paid during these tough economic times.

### Response from Bill Homjak, SSP Fittings Corp.

While trading job losses for bonuses is certainly an ethical question, it's also a business question. Is it the "smart business thing to do," that is, to lose the very skills needed to sustain the business?

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While some layoffs are unavoidable when revenue drops significantly, there are other alternatives to reducing labor costs than just the traditional layoff.

It was very common just prior to the downturn that most businesses had serious labor shortages, particularly in skilled and semiskilled positions — where good talent was a limiting factor to business growth and customer satisfaction.

Most of the businesses I am experienced with that used "quick trigger" layoffs with any downturn no longer exist as independent businesses. Companies that have used other strategies to preserve the workforce during downturns continue to thrive in the long term.

### Response from E. James (Jim) Brennan, ERI Economic Research Institute

That appears to be a perverse incentive on a number of levels. If the management cost-control bonus is a long-term reward computed only after a full year has passed without the need to replace the laid-off people, it might make sense. At first glance, the plan seems to simply reward those who have most overstaffed their departments. Those who ran "lean" will lose out or will hurt the enterprise if they cut heads who are essential. Those who padded their payroll with unnecessary staff probably got bigger budgets and earned more pay for that; and now they stand to get even richer by trimming the fat they added. This is not an ethical issue, but a question of design appropriateness. ws

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