

Strategic Management/Business Policy in a Catholic Business School

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Revised January 2014

CLASS 22: Strategy Implementation – Layoffs

Implementing corporate strategy will often involve decisions about plant closures, layoffs and off shoring of local jobs. When students are asked to develop policy in cases or simulations, these are often strategies they suggest. An approach to a strategy course grounded in the principles of CST should require students to consider those decisions from an ethical point of view. And there are certainly ample CST sources to provide the basis for such ethical analysis. The following passages are representative of the century long tradition of commentary on employment.

Resources created by human industry are also held in trust. Owners and managers have not created this capital on their own. They have benefited from the work of many others and from the local communities that support their endeavors.⁽⁶³⁾ They are accountable to these workers and communities when making decisions. For example, reinvestment in technological innovation is often crucial for the long-term viability of a firm. The use of financial resources solely in pursuit of short-term profits can stunt the production of needed goods and services; a broader vision of managerial responsibility is needed. (EJA, 113)

In fact, the purpose of a business firm is not simply to make a profit, but is to be found in its very existence as a *community of persons* who in various ways are endeavouring to satisfy their basic needs, and who form a particular group at the service of the whole of society. Profit is a regulator of the life of a business, but it is not the only one; *other human and moral factors* must also be considered which, in the long term, are at least equally important for the life of a business. (CA, 35)

Each person collaborates in the work of others and for their good. Man works in order to provide for the needs of his family, his community, his nation, and ultimately all humanity.⁸⁶ Moreover, he collaborates in the work of his fellow employees, as well as in the work of suppliers and in the customers' use of goods, in a progressively expanding chain of solidarity. Ownership of the means of production, whether in industry or agriculture, is just and legitimate if it serves useful work. It becomes illegitimate, however, when it is not utilized or when it serves to impede the work of others, in an effort to gain a profit which is not the result of the overall expansion of work and the wealth of society, but rather is the result of curbing them or of illicit exploitation,

speculation or the breaking of solidarity among working people. Ownership of this kind has no justification, and represents an abuse in the sight of God and man. (CA, 43)

Human beings are themselves considered consumer goods to be used and then discarded. We have created a “throw away” culture which is now spreading. It is no longer simply about exploitation and oppression, but something new. Exclusion ultimately has to do with what it means to be a part of the society in which we live; those excluded are no longer society’s underside or its fringes or its disenfranchised – they are no longer even a part of it. The excluded are not the “exploited” but the outcast, the “leftovers”. (EG, 53)

We can no longer trust in the unseen forces and the invisible hand of the market. Growth in justice requires more than economic growth, while presupposing such growth: it requires decisions, programmes, mechanisms and processes specifically geared to a better distribution of income, the creation of sources of employment and an integral promotion of the poor which goes beyond a simple welfare mentality. I am far from proposing an irresponsible populism, but the economy can no longer turn to remedies that are a new poison, such as attempting to increase profits by reducing the work force and thereby adding to the ranks of the excluded. (EG, 204)

The relationship between labour and capital often shows traits of antagonism that take on new forms with the changing of social and economic contexts. In the past, the origin of the conflict between capital and labour was found above all “in the fact that the workers put their powers at the disposal of the entrepreneurs, and these, following the principle of maximum profit, tried to establish the lowest possible wages for the work done by the employees”.[601] In our present day, this conflict shows aspects that are new and perhaps more disquieting: scientific and technological progress and the globalization of markets, of themselves a source of development and progress, expose workers to the risk of being exploited by the mechanisms of the economy and by the unrestrained quest for productivity. (CSD, 279)

One must not fall into the error of thinking that the process of overcoming the dependence of work on material is of itself capable of overcoming alienation in the workplace or the alienation of labour. The reference here is not only to the many pockets of non-work, concealed work, child labour, underpaid work, exploitation of workers — all of which still persist today — but also to new, much more subtle forms of exploitation of new sources of work, to over-working, to work-as-career that often takes on more importance than other human and necessary aspects, to excessive demands of work that makes family life unstable and sometimes impossible, to a modular structure of work that entails the risk of serious repercussions on the unitary perception of one's own existence and the stability of family relationships. If people are alienated when means and ends are inverted, elements of alienation can also be found in the new contexts of work that is immaterial, light, qualitative more than quantitative, “either through increased sharing in

a genuinely supportive community or through increased isolation in a maze of relationships marked by destructive competitiveness and estrangement". (CSD, 280)

The transition currently underway signals the move from dependent work with no prescribed time limit, understood as a stable job, to a series of jobs characterized by many kinds of work activities, from a world of a unified, definite and recognized concept of work to a universe of jobs where there is great variety, fluidity and a wealth of promises. There are also many questions of concern, especially with regard to the growing uncertainty of work, the persistent presence of structural unemployment and the inadequacy of current systems of social security. The demands of competition, technological innovation and the complexities of financial fluxes must be brought into harmony with the defence of workers and their rights. (CSD, 314)

Business owners and management must not limit themselves to taking into account only the economic objectives of the company, the criteria for economic efficiency and the proper care of "capital" as the sum of the means of production. It is also their precise duty to respect concretely the human dignity of those who work within the company.[719] These workers constitute "the firm's most valuable asset" [720] and the decisive factor of production.[721] In important decisions concerning strategy and finances, in decisions to buy or sell, to resize, close or to merge a site, financial and commercial criteria must not be the only considerations made. (CSD, 344)

These passages, and in particular the underlined passages, parallel ideas in current business ethics about the collaborative nature of work and about the need to recognize the value and contribution of workers in decisions about plant closures, layoffs and outsourcing. The CST resources also parallel current business ethics discussions by distinguishing between ethical questions about when or why to institute a layoff and ethical questions about how to execute a layoff.

On the former question, the CST sources urge that decisions about layoffs not be made purely as a way to marginally increase return to investors. CST sources clearly recognize that layoffs are sometimes unavoidable. They also recognize the importance of encouraging economic development for less developed economies, and that may entail shifting production from advanced economies. While those sources thus recognize the need and even desirability in some cases to shut plants or to reduce workforces, they argue that such decisions must be made with due consideration on the impacts for employees. In deciding questions about how to allocate the resources of the firm (which is precisely what a decision to layoff is) fair consideration must be given to employee contributions to the collaborative effort between labor, capital and management in building the firm. This suggests that layoffs should be used as a last resort and not merely as a means for increasing share value. In cases of decisions to move production to

locations with lower labor costs, some CST sources are explicit that this should not be done in a way that both exploits new workers and marginalizes or excludes current workers in order to increase profits.

Sources outside of CST in strategic HR and in business ethics echo these prescriptions. (See the background paper for potential sources.) Some have argued that while layoffs may momentarily increase share value, in the longer-term, they can often damage morale and eliminate important sources of firm-specific knowledge. In fact, they often report that high performing firms exhibit a number of inter-related HR practices, one of which is a commitment to conditional job security for employees. Serial and frequent resort to layoffs across the economy can multiply this effect and have damaging consequences for economic output. If we are committed to a view that sees the purpose of business as contributing to human dignity and flourishing, and if we are concerned about implementing strategy in order to create value for a broader array of stakeholders, students can be given clear and compelling reasons for the CST perspective on when layoffs are justifiable.

CST sources are perhaps less specific when it comes to advice regarding the second question – how to implement a layoff. It is clear that CST advises that the welfare and the rights of workers must be considered. But that advice does not give much determinate guidance about how to handle a layoff when it is necessary or justifiable. However, again, material in strategic HR and business ethics can help to provide a fuller account for students. In those sources, the question of implementation focuses more specifically on the provision of advance notice and severance when layoffs occur.

Students can also get a more concrete grasp of alternative approaches to layoff implementation if they are exposed to the differences between European and American policy and practice. (See McCall and Werhane, 2010 for details on these differences as well as for ethical arguments for the superiority of the European model.) In Europe, a “social partners” approach emerged after World War II where labor, capital and government saw themselves as cooperating in creating value for the society. In large measure, that approach was informed by principles of CST that had higher profile in the European economic environment. As a result, the emphasis is on strategies to avoid layoffs and to minimize their impact by providing substantially more advance notice and more generous severance than is typical in the US.

Students can be given information about the life impacts of advance notice and generous severance. Notice reduces the time spent without employment and severance allows workers to maintain a decent human quality of life during job search. These provisions are often required either by statute or by labor agreements. Students can also be given evidence that these requirements have not made European firms uncompetitive or unprofitable, contrary to the suggestions of free market and shareholder primacy advocates.

Some in those camps argue against an ethical or legal severance requirement by suggesting that workers have been fully and fairly compensated for the work they have done. Some also argue

that employees have not been promised future employment and, so, a layoff does not breach any commitments made to workers. Students are likely to repeat these ideas, often gleaned from both media and other courses. It helps to have ready responses in order to defend the CST perspective.

In response to the “no promises” claim, it is helpful to note that all employers attempt to generate loyalty and commitment to the firm through rhetoric about “teams” and “families.” Further, employers need to encourage the idea that one’s job will be there tomorrow in order to reduce turnover and retraining expenses. So, the claim that there have been no promises made may be challenged. It is at least clear that employers rely on implicit communication of a purported reciprocal commitment between workers and the firm.

In response to the claim that workers have been fully and fairly compensated (and thus deserve no severance), it helps to point out some facts about internal firm labor markets. It is often the case that workers wages rise throughout their job tenure. Some labor economists account for the upward slope of a wage profile over a worker’s career as a device for binding workers and for reducing the need to monitor workers. They claim that the wage history represents a wage lower than the worker’s contribution to the firm early in her career and higher than her contribution later in her career. In essence, firms structure pay to include an implicit deferred wage. Workers, realizing that the bigger compensation comes in the future, will try to make sure that their work is strong, in order to retain their job and reap those future benefits. If a worker loses her job through a layoff, it may very well be the case, then, that she has in fact not been fully compensated for past work. Hence, severance can be compensation for these deferred wages.

Additionally, severance can represent compensation for past loyalty and commitment. After all, workers cannot diversify their risk of job loss in the same way that investors can diversify their risk of lost capital. Severance can be recognition for the risks assumed by exhibiting that loyalty over time. Finally, severance can be argued as appropriate recognition of the respective contributions of the separate factors of production (as CST explicitly emphasizes). The idea that investors are the sole residual risk bearers is not an accurate picture of the firm. Bondholders and employees face serious economic risks as well. Severance may be one device for partially mitigating those risks. And it is one that can be budgeted for in advance.

If students can accept the earlier arguments about corporate purpose, and can be made to see the firm as a cooperative value creation enterprise, then they can better understand alternative strategic choices, including choices about when layoffs are ethically justified and about the ethical importance in how layoffs are implemented. Exposing students to the above ideas from strategic HR, to case studies of successful firms that grant job security, and to the fairness arguments from business ethics will help reinforce the viability of CST prescriptions.