

Career Compass No. 82: Avoid Layoffs by Using a Menu of Strategies

To redesign services, local government leaders need to cross boundaries and engage stakeholders inside and outside the organization.

By Frank Benest | May 26, 2020 | ARTICLE



I am an assistant city manager in a large suburban community in the west. In response to the COVID-19 pandemic, I'm leading a city-wide budget reduction team dealing with substantial revenue losses. The multidisciplinary team is composed of senior managers, emerging leaders, and union representatives. As the group leader, I report to the city manager and executive team.

City staff is slowly returning to our workplaces after months of remote work. Generally speaking, we all did some remarkable work during the initial public health crisis. We kept our employees safe; responded to the needs of vulnerable and at-risk community members (check-ins and meals for shut-in seniors; hotel beds for homeless); and reached out to small business people to connect them with government assistance.

There was also a lot of rapid innovation, including:

- *IT support for remote workers.*
- *Use of electronic signatures.*
- *Increased contract limits for work teams responding to the health crisis.*
- *Virtual city council and commission meetings.*
- *Loaned employees to nonprofits serving vulnerable populations.*

The challenge is that our budget team is overwhelmed with the big losses in sales tax, hotel/motel taxes, and development and recreation fees. The group is about to propose to the city manager and department heads significant layoffs. Given the magnitude of our revenue losses, team members see few other alternatives. I fear that these layoffs will do significant damage to our organization and our services.

Do you have any guidance for us?

All of your local government colleagues across the nation are facing looming budget cuts. There seem to be few choices except to primarily rely on employee layoffs. However, you are correct. Layoffs do massive damage.

In fact, there are choices. Below I will present a menu of strategies. Your organization may have to lay off employees. However, in my experience as a city manager and department head, layoffs should be a last resort.

Since there is no one strategy to address all your pending revenue losses, your team must mix and match budget solutions that make sense to your particular local government agency.

Seven Lessons About Budget Cutbacks

Given my practice, I have learned the following lessons about cutback management, especially layoffs:

1. In a significant recession, cutting at the margins is insufficient.
2. In the face of large budget problems, agencies require enlightened organizational leadership (not just sound financial management). Effective organizational leadership at all levels help the agency survive its budget challenges and thrive into the future.
3. Given the host of negative impacts, organizations should avoid or minimize layoffs of regular, permanent staff.
4. Effective leaders help the organization piece together a number of creative budget and service redesign solutions.
5. To redesign services, local government leaders need to cross boundaries and engage stakeholders inside and outside the organization, as well as other public agencies.
6. Local governments have an array of assets (i.e., facilities, equipment, real estate, technology, expertise, knowledge) that can be leveraged in overcoming their financial problems.
7. As it reduces resources, an organization needs to target new investments.

Why Avoid Layoffs

There is much research from the private sector that layoffs significantly damage organizations. Over time, profitability declines, costs go up, and talent flees. (See Jeffrey Pfeffer, "[Lay Off the Layoffs](#)," *Newsweek*, Feb 5, 2010; "[How Layoffs Hurt Companies](#)," *knowledge@wharton* e-newsletter, April 12, 2016.)

In the public sector, we also see many negative impacts of layoffs:

- Productivity plummets.
- Customer service declines.

- Costs go up (i.e., severance, outplacement, and rehiring costs once the economy improves).
- Fear erodes creativity and innovation, which are required to overcome the cutbacks.
- Trust in management and employee engagement take a dive.
- Top talent leaves forever.

In short, your organizational capacity and viability going forward are dramatically undercut.

Again, your agency may have to resort to layoffs at some point, but it should be a last resort given the negative consequences.

Don't Return to Normal

Your organization must sustain a rapid innovation approach if you are going to address the continuing health crisis, economic challenges facing the community, the agency's financial hole, and the looming service cuts to the community. You do not want to "get back to normal." You must use this crisis opportunity to permanently transform services, transactions, and regulatory systems.

Before COVID-19 hit, "normal" meant 85% of services were provided face-to-face or by hand using legacy technology. (See Brian Elms, "[Government's Innovation Surge Shouldn't End with the Pandemic](#)," *governing.com*, April 29, 2020.) Approving a contract required 10 signatures from various departments. "Normal" meant it took a department 4-6 months to fill a budgeted position, or customers had to make numerous trips to the Development Permitting Center with reviews by staff from several departments before a small business could open.

To accelerate innovation (such as those recent micro-innovations undertaken by your remote workforce), create several rapid innovation teams; engage employees (beyond the "usual suspects") who volunteer from throughout the organization; suspend some rules; and try out a number of experiments or "small bets," especially across department silos.

How Do You Proceed to Creatively Address the Budget Crisis?

To address your budget crisis, you must help senior managers **manage** and **lead** at the same time. (See Eric McNulty and Leonard Marcus, "[Are You Leading Through Crisis...or Managing the Response?](#)," *hbr.org*, March 25, 2020.) Department directors and other senior managers must zoom in and address the urgent operations and budget needs of the present. That's management. Your senior managers must make immediate choices (i.e., preserve cash by cutting discretionary spending and services), and reallocate scarce resources. The pace is fast and actions must be decisive.

You must also help senior managers zoom out and lead the agency in restructuring the organization, redesigning services, and enhancing organizational culture over time. Leadership requires that senior management see beyond the immediate and anticipate and shape a preferred future 3-5 years down the line. (See Career Compass #81 "[We Need Adaptive Leaders Now.](#)")

To lead this reshaping process, top management must. . .

1. Share financial data with all and prepare everyone for changes in "what" the organization does and "how" the organization delivers services and allocates resources. This includes governing board, employees, union reps, community members, service partners, and stakeholders.
2. Communicate and engage more, but talk less. (See James Lucas, "Managing Through Meltdown," *MWorld*, American Management Association, Fall 2002.) Engage policy makers, employees, service recipients, and union leaders in providing ideas on how to navigate the financial crisis and redesign services. Hold forums and focus groups, especially with employees. Create an online "idea mart" for employees to share ideas; post all ideas and commit to evaluate any idea submitted; and demonstrate that you listened by communicating how the ideas are making an impact in budget decisions or service redesign. Listening to others increases your influence, relationship, and connection. Listening creates followership.
3. Create opportunities for governing board members and employees to explore a new future and "story" for the organization. Your new story may include:
 - More self-service.
 - Automated service.
 - Streamlined processes.
 - Less "rules," more smart risks.
 - More insourcing, outsourcing.
 - Regionalized or "shared services" with other local governments.
 - Cross-silo structures.
 - Offloading service responsibilities to other entities.
 - Community groups that co-produce services with the city.(See Frank Benest, "[Creating a New Future for a Downsizing Organization](#)," *PM*, Oct 2005.)
4. Undertake "future-back" thinking. Once you help the organization envision a new story, leaders at all levels must undertake "future-back" thinking. What must be true if our new organizational story is to be realized over time? What kinds of employee skills and capabilities do we need to make our story come true? What are the investments that must be made? What are the new models of serving the community? What experiments must be undertaken today? (See Dan Rockwell, "[Future-Back: How Leaders Create the Future Today](#)," *Leadership Freak* blog, April 14, 2020.)
5. Test out the new story. Begin to implement a portfolio of "small bets" in order to test out the story (for instance, do a beta test on a few self-service kiosks); identify what works and what does not work; pivot and adapt. (See Peter Sims, [Little Bets: How Breakthrough Ideas Emerge Through Small Discoveries](#), April 2011.)

Addressing “Free Exiter” Problem

As local governments make significant budget cuts, especially utilizing layoffs, they will experience the loss of talent.

First of all, as they layoff certain staff in lesser-priority service areas, they have lost that talent forever. Once the economy improves and budget problems diminish, local governments might want to fill those positions or similar positions and must search for new talent.

Second, big cuts and layoffs demoralize people in the organization and damage the culture. You need your “A” players or “stars” to stay with you so that they develop the creative solutions to your financial and service problems. The “A” players may no longer enjoy working in your organization after severe budget cuts and the resulting poorer employee experience. “A” players have the skills, talent, expertise, and self-confidence to leave for better jobs elsewhere. These “go-to” employees can freely exit. When they do, your problems just get worse.

It is essential that you find some “social glue” to keep these free exiters. To do so, you can:

- Give them new stretch projects that energizes and challenges them and are critical to the governing board and the organization.
- Provide them with more autonomy.
- Promote them or at least give them better working titles, if desired.
- Help them recraft their positions to focus on their strengths and what they enjoy to do.
- Give them what they want (i.e., a new computer, an ergonomic chair, authority to attend a conference).
- Appoint them as a formal leader of a rapid innovation team.

While this approach may appear to play favorites, you need to retain the free exiters in order to overcome your budget and service problems. Without retaining key talent, organizational leaders will fail.

Establish Guiding Values and Principles

To guide financial and organizational decisions, you must engage management and all levels of the organization to identify certain values and principles. Here are a few sample values and principles:

- In-it-together. We are “in-it-together” as an organizational family. There will be shared commitment to get through the budget crisis and shared sacrifice among all employee groups and departments in solving the problems. No “sacred cows.”
- Engage employees. We will actively engage all employees to suggest solutions to our problems, all of which we will evaluate for possible implementation.

- People first. We will put people first inside and outside the organization, especially their health and larger safety needs.
- Choices. Where possible, we will offer choices and options to employees (i.e., in scheduling furlough days or figuring out with department teams which strategies make the most sense for their department).
- Change the rules. We won't be afraid to change the rules and take some risks in recommending bold solutions.

Leaders must refer back to the values and principles as they make decisions. Of course, top management must live up to the values and principles or they will lose credibility and trust.

A Menu of Budget and Service Redesign Solutions

Based on my experience and the literature, I have developed a menu of budget and service redesign solutions. See the link at the end of this section.

In drafting the menu, I intend to provoke your thinking and action.

Here are some caveats in reviewing the menu of budget solution choices:

- No one “solution” is a magic bullet and will solve all your budget problems.
- You need to mix and match ideas from the menu and craft a plan or portfolio of solutions that works for your unique organization and community.
- You may not agree with the value or appropriateness of any one item on the menu. The menu provides choices and options for you.
- You must help the governing board identify its priorities, which will help top management and your team identify core, important but not essential, and discretionary services.
- Some the menu options can be implemented immediately (i.e., cut travel and other discretionary spending). Other choices are more mid- or longer-term approaches (i.e., leveraging assets or regionalizing services). Your budget plan should identify short-, mid-, and longer-term efforts.
- Some of the strategies should be viewed as “experiments” (i.e., self-managed work teams). You start a beta test, see what works and what doesn't, and scale the effort if the beta test is successful.
- You need to adopt a mentality of “subtract, subtract, subtract.” Eliminating non-core programs frees up resources to be reallocated. Reducing non-value-added administrative reporting, ritualistic practices (annual performance reviews), and steps in processes (hiring new employees, approving contracts) frees up staff time and energy, especially management time, which is required to guide some of the budget and organizational restructuring.
- An organization needs to spend money to make money. If you want voters to approve a new tax revenue measure, you may have to spend funds on a consultant or polling. To invest in new tech solutions, which may eventually reduce staffing, you might need to invest scarce resources in developing and implementing these solutions.

- Your city manager and budget team must engage the governing board, employees, union representatives, outside stakeholder groups, and potential service providers in discussing the value and opportunities posed by the budget proposals. To the extent possible, incorporate the ideas of the groups so the proposals become shared solutions.
- To implement some of the budget solutions, top management might want to form rapid innovation teams, consisting of employees and other stakeholder reps. (You may want to engage employees by having interested staff bid on joining a desired team.)
- The menu is **incomplete**. Suggest additional ideas or share examples for the menu by emailing me at frank@frankbenest.com.

[Review the full menu of budget and service redesign solutions in the ICMA Document Library.](#)

Frank's Favorite Budget Strategies

From all the budget ideas identified on the menu, I have selected my top 7 solutions.

1. Restructure around vacancies created by hiring freeze or early separation incentive program: Use any vacancies to consolidate functions, merge field crews or other units, and/or reduce management or supervision. If you use monetary incentives for early retirement or early separation, only approve the application and incentive if the department management can develop a plan on how the vacancy will allow restructuring and cost savings. Obviously, don't approve the incentive for early retirement or separation if you must refill the position with no restructuring.
2. Leverage assets: Inventory all assets (technology, equipment, facilities, real estate, expertise). Then determine which assets can be leveraged to cut costs or raise revenue. For example, can you sell IT services to another local government or share a fire ladder truck with your adjacent city for a fee?
3. Create city-wide or shared agency "talent pool." Assign any staff whose position is eliminated to a "talent pool" for your agency or several agencies that desire to share the talent pool. Then other departments can bid on talent and fill vacancies, or place the staff into training or development positions.
4. Reengineer and streamline processes and practices to free up staff time: Streamline processes (i.e., hiring, contracting and procurement), freeing up staff time and allowing for gradual elimination of positions or redeployment to other service areas.
5. Regionalize or share services with other agencies: Regionalize fire, library, or animal control services; create shared services such as procurement of equipment or employee training.
6. Automate and create self-service models: Automate certain functions so customers can serve themselves (i.e., "virtual police officer" function on police department website so residents and businesspeople can report certain offenses; help customers do self-inspections in certain low-risk situations; provide kiosks so employees can serve themselves when engaging with the HR Department.
7. Offload service responsibilities to other entities: Contract with another government agency for service (i.e., police, fire, libraries, inspections, fleet maintenance); provide grants to nonprofits or neighborhood groups to provide youth programs or senior citizen assistance.

If You Must Lay Off Employees

If, after trying a variety of strategies, you still must lay off regular employees, here are a few suggestions to consider:

- Align with values and principles. Before finalizing the layoffs, senior management must ask themselves: How do the layoff process and impacts square with the values and principles that we established to guide the budget cutback challenge?
- Consider issues of fairness. Most organizations will develop some criteria before identifying employees to be laid off. For instance, they may target lesser skilled employees in lower priority service areas or administrative support positions. Before finalizing the layoffs, consider issues and perceptions of fairness. Are supervisors and managers included in the layoffs, as well as professionals and unionized service workers? Are women and/or people of color disproportionately affected?
- Don't do several rounds of layoffs. Once the only round of layoffs is announced and implemented, hopefully the remaining workforce can feel a small measure of safety with less fear.
- Allow those laid off to rejoin the organization if your financial situation improves without formally reapplying for their former positions
- Provide support for those laid off employees and their families, including reasonable severance, outplacement services, and some continuance of paid health care

The manner in which senior management handles the layoffs will demonstrate their ethics and who they are as leaders.

Adapt; Be Bold

Leaders cannot solve the massive budget shortfalls at the margins. To solve our financial challenges, we need to be bold.

I'd like to end with two quotes.

The first quote is from Charles Darwin and his treatise *The Origins of Species*: "It is neither the strongest of the species that survives, nor the most intelligent, but the one most responsive to change."

The second is from the German poet and scientist Johann Wolfgang von Goethe: "Whatever you can do or dream you can, begin it. Boldness has genius, power, and magic in it."

So be bold. Now is the time.



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