Return on investment of high-quality outplacement programs

John A. Challenger

Introduction

Corporate executives and shareholders seem to take it as an article of faith that reductions in force and the savings they generate are a necessary evil when earnings numbers are declining. Others start a priori with the fact that downsizing is wrong because of the damage inflicted on individuals, communities, and society. In their ardor to take action before year-end or to demonstrate that the human costs outweigh the profitability of downsizing actions, both shareholder agents and worker advocates push aside the imperative to develop fiscally pragmatic solutions to mitigate the effects. They fail to look at job loss as a mental health and education/training policy issue that must be addressed by individuals, organizations, and government, each with self-interest and "skin in the game."

Like other health care issues, the questions of what works and who pays for the services are in dispute. The personal reemployment account (PRA) plan[1] seeks to harness the individual's motivation to take appropriate career actions when unemployed, but is too expensive and the monies are likely to be misspent. Effective retraining and community college programs are even more costly and only correct for unskilled and perhaps some semi-skilled workers. Companies that conduct downsizing actions, however, do have compelling financial reasons to develop a more complex understanding of the damage and costs to the organization and to assist discharged workers and managers in bridging to a new job.

Organizations that utilize high-quality outplacement in downsizing programs receive a return on investment (ROI) that far exceeds the costs of a poorly managed or simplified plan. Unfortunately, many companies have weakened their outplacement programs in order to reduce costs. In addition, many human resources consulting firms offer outplacement programs of inferior quality with very limited services that will not produce the results described here.

We use the words "high-quality outplacement" throughout this article to describe the comprehensive outplacement programs that will have a substantial impact on individual job searches and company financial health after a downsizing event. Such high-quality programs would include proactive mental health and counseling support for discharged workers, plus tailored coaching in job finding skills and technical/administrative services. These programs *dramatically lower the duration of unemployment and maximize the utilization of an individual's experience and skills in the next job*.

By investing in high-quality outplacement services for affected employees, companies will significantly cut the total costs of a downsizing action by reducing overlooked losses in absenteeism, unemployment insurance, health care insurance premiums, turnover, and litigation. As companies become more adept at measuring the total costs of their layoff actions, corporate self-interest will increase utilization of high-quality outplacement programs.

Making the right decision

In today's market and economy, organizational change is unavoidable. "Restructuring" and "downsizing" have become a necessary and indispensable part of business language, leaving many employees distrustful of management and many employers facing the huge losses in productivity that can come with organizational change. In fact, left unaddressed, the hidden costs of organizational change from both discharged and remaining employees consistently outstrip the

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savings gained from reductions in personnel. Studies show that absenteeism and turnover among remaining employees increase after downsizing, translating into lost productivity, lower stock prices, and lower profitability. Moreover, companies face tremendous costs from dismissed employees in the form of prolonged health insurance premiums and unemployment insurance costs, as well as potentially crippling litigation costs.

With employees anticipating organizational change and being more likely to take action in response, companies can no longer afford to ignore the psychological and financial effects of layoffs on both the individuals who were dismissed *and* those who remain. Thus, out of "restructuring" and "downsizing" has come "outplacement," taking care of employees by bridging them successfully out of the company rather than leaving them to fend for themselves. Usually, an outside firm is hired to work with the discharged employees, helping them find new jobs more quickly. However, these job-finding methods vary widely between outplacement providers—services offered range from merely having facilities available for clients to conduct their own job searches to guiding them through the process with one-on-one counseling and support. In recent years, demand for high-quality outplacement services has eroded as it has been commoditized, greatly reducing its impact. A comprehensive outplacement program makes an enormous difference in employee behavior, reduces the duration of worker unemployment, and improves company productivity and profitability.

Investing in well-being

High-quality outplacement further mitigates the risks to productivity from the hidden costs of organizational change by ensuring that all parties come to terms with the downsizing process. Laid-off workers, once they are able to cope with their job loss, find new jobs more quickly. Remaining employees, seeing that their former coworkers are being taken care of, trust that they will be treated fairly as well. Management, spared from lawsuits and general distrust, can rest easy knowing that they provided for employees at every step of the way. High-quality outplacement is an investment—in relations with former employees, in the trust of current employees, in the reputation of the company—and the return on investment of "real outplacement impact" can be even larger than the financial returns on investment.

From a purely financial perspective, it may seem counterintuitive that investing in the welfare of ex-employees will help profits, especially because the reason for downsizing is to improve productivity by cutting costs. Financial executives may ask, "Why should I spend more money on discharged employees and dip into the savings from letting them go?" Yet the answer is not as subjective as one might think: Companies should invest because it helps the overall bottom line—high-quality outplacement minimizes the extra costs that come along with downsizing.

In the downsizing process, the savings from maintaining fewer employees is far from the only change in costs. For instance, the remaining employees' decrease in morale following a downsizing means more sick days, lower productivity, and higher turnover. Not only is the productivity loss extremely large—hiring temporary substitutes, paying employees for time away from the office—but the costs of both replacing employees that leave and training their new substitutes add up quickly. On top of that, discharged employees continue to incur costs after termination. Companies continue covering health insurance premiums while former employees are looking for new jobs. Moreover, the longer the duration of unemployment, the higher unemployment tax rate the company will have to face. And perhaps the biggest potential hit to a company's budget is when former employees who feel that they were unfairly treated sue for wrongful termination, resulting in substantial costs even if the case is dismissed or settled out of court. If the company goes to trial and loses, the financial impact increases exponentially as these cases tend to award plaintiffs colossal sums in lost salary and punitive damages.

Philosophy of high-quality outplacement

If the right type of outplacement services can lower costs by so much, what exactly is meant by "high-quality outplacement"? That is, what sets this apart from many of the minimal services being offered in the marketplace today? The answer is best described as the health club analogy. Imagine that in January, a health club offers you a three-month membership, giving you unlimited access to their facilities for a lump-sum fee. By March, your resolve to work out has faded away, and the gym is completely empty, leaving you no closer to your ideal body and leaving the health club with nobody to care for. Many outplacement companies operate in the same way, merely providing facilities with job-hunting resources that clients may use as long as they maintain their resolve. In this way, the outplacement firms dump the burden of responsibility for job-hunting onto the terminated employees themselves—if the ex-employees are still without jobs, it is because they have not been using the available facilities. Without guidance and support in first coping with job loss and then managing the job search, clients walk away feeling frustrated at the process and still bitter toward their former employer.

In contrast, high-quality outplacement can calm tensions and minimize conflict from the very beginning of the downsizing process. From pre-termination planning, to on-site presence at the day of termination, to follow-up counseling and support throughout the job-search process, providers of high-quality outplacement shoulder the responsibility of reaching out to the client from beginning to end. Clients are guided through the process with resume development aid and ad sourcing and answering services. More importantly, high-quality outplacement strives to improve the fundamental attitudes of these employees who have had to cope with job loss. With constant encouragement, interviewing practice, and regular counseling sessions, one-on-one counselors relieve clients' fears and help them develop important job-finding skills. Clients, having accepted their former employer's circumstances and decisions, are coached through the process—not only reducing the job search time, but improving the kind of jobs they find and giving them the tools necessary to move ahead in their careers.

Thus, the difference between high-quality outplacement and nominal outplacement is one of foresight. High-quality outplacement is a financial investment in the well-being of past, present, and future employees, and therefore, it is an investment in morale, productivity, and profits. Many less comprehensive forms of outplacement simply fulfill a requirement. Choosing a more nominally "cost-efficient" outplacement provider allows companies to alleviate guilt and maintain their reputation by appearing to provide for employees who have been let go. Yet this facade does not hold up for long. Former employees can sue, which may damage the company culture as well as having financial implications. Remaining employees may keep in touch with their former coworkers and worry about being unfairly treated themselves. All of this fosters an unhealthy work environment, which deters potential employees from wanting to join the company in the future.

How high-quality outplacement helps: Survivors

High-quality outplacement minimizes the potential hidden costs by addressing the psychological concerns of both discharged employees and remaining employees (survivors) from the very beginning of the downsizing process. Handling the termination day properly is critical to maintaining the trust and morale of surviving employees, as well as avoiding conflict with terminated employees.

Having lost some of their fellow coworkers, surviving employees often experience decreased morale, causing lower productivity. In a 2001 survey of 759 workers who had survived a layoff, 46 percent of respondents reported that morale had decreased.[2] This unpleasant environment in the workplace causes companies to lose high-potential employees they meant to retain, as disgruntled surviving employees seek new jobs. Makawatsakul and Kleiner (2003) cite a 1995 survey of employees at downsized organizations, in which 50 percent reported decreased company loyalty and 37 percent reported decreased job satisfaction. While the effects of a decrease in morale are not easy to quantify, it is clear that the negative reaction to downsizing affects a company's bottom line. According to a Finnish study of downsizing, the sickness absence rate was more than two times as high after major downsizing than after minor downsizing, and the risk of health problems, as indicated by medically certified sickness absence and other indicators, was at least twice as great after major downsizing as after no downsizing.[3]

The reaction of surviving employees depends heavily on how fairly they perceive their former coworkers to have been treated—that is, the more unfairly they believe terminated employees have been treated, the greater insecurity they will have about their own jobs. In an environment of frequent organizational change, job insecurity has become a sizable problem. In a 1991 survey of 909 firms that had been through downsizing, 70 percent of retained employees were afraid of losing their jobs. Asked if they still trusted their organization after downsizing, 31 percent said they did not.[4] This is because those who have survived a major downsizing feel both relieved and angry at the injustice of the situation. "Survivor's syndrome" leaves retained employees feeling as stressed as those who were let go—job insecurity, with the added guilt of being spared while some coworkers were not.

The potential costs of lower morale and increased stress due to job insecurity and survivor's syndrome after downsizing are high. According to Tangri (2003), "Stress costs American businesses more than $300 billion annually in lost productivity, absenteeism, accidents, employee turnover, and medical, legal and insurance fees, and workers' compensation awards. This is more than 15 times the cost of all strikes combined." However, even this figure does not capture all the indirect costs, such as the effect of employee turnover on stock prices and profitability.

Jude Rich of Sibson Consulting, Princeton, NJ, in a 2002 article for *Financial Executive Online,* cited the example of an unnamed, large hotel chain experiencing annual employee turnover of 60 percent, which cost the company $350 million annually from hiring and training replacements; lower productivity during ramp-up time for new employees; and reduced occupancy rates, due to poor guest satisfaction levels. He proposed that if the hotel's turnover were cut in half, to 30 percent, stock prices could increase by nearly 25 percent. He further estimated that if turnover could be cut to 15 percent, stock prices would increase almost 50 percent. Tangri (2003) estimates that in a retail stock brokerage firm, profitability would increase by 2 percent for every 1 percent reduction in turnover.

But what does all of this mean in terms of productivity dollars? Tangri (2003) cites *The Third Annual Industry Week Census of Manufacturers*, which surveyed data from over 1,750 manufacturing plants (see table 1). Productivity at plants with turnover of less than 3 percent was 66 percent higher than it was at plants with turnover of more than 20 percent.

TABLE 1

Impact of productivity on turnover

Turnover %	Productivity per worker
Less than 3	$200,000
3–5	153,000
6–10	150,000
11–15	130,000
16–20	125,000
More than 20	120,000

Source: Tangri (2003).

Thus, even a small decrease in turnover rates means more profits, and high-quality outplacement can mitigate turnover by dealing with its roots. With pre-termination planning, outplacement representatives help the company present its downsizing decision in the best possible way, so as to minimize job insecurity and distrust among employees. On the day of termination, counselors are present on-site to help affected employees cope, leaving a much calmer picture of the downsizing for everyone involved. Afterwards, surviving employees see that their former coworkers are being taken care of, lessening the fear of being unfairly treated at termination that would drive them to find new jobs.

How outplacement helps: Discharged employees

Though handling the concerns of the remaining employees is extremely important to a downsizing company's future profitability, in terms of post-termination costs to the company, dealing with the psychological issues of the discharged employees is perhaps even more important. The former employees may be angry and could file wrongful termination lawsuits, leading to huge costs and bad press for the former employer. As organizational change becomes more prevalent, ex-employees become more eager to choose litigation. A 1998 *USA Today* article cited Edgewater Holdings, a Chicago insurance company offering wrongful termination coverage, which estimated that more than 50,000 wrongful termination cases were filed in 1997. Of these, 24,000 wrongful termination cases were filed in federal court, up 77 percent from 1993.[5] Besides the direct costs of jury awards and attorney fees, lawsuits cost a firm in productivity dollars as management spends time preparing a defense. According to a study by Dertouzos and Karoly (1992) of The Rand Corporation, these "indirect effects of wrongful termination doctrines are 100 times more costly than the direct legal costs of jury awards, settlements, and attorney fees." The best solution, then, would be to understand employees' motivations for filing and address those issues.

Some former employees may file wrongful termination claims simply for economic reasons—the prospect of being without steady income is frightening and the potential awards are quite substantial. According to Jury Verdict Research, Horsham, PA, the median compensatory jury-award for employment-practice liability cases, which includes wrongful termination claims, rose 18 percent in 2003 to $250,000. A 2000 study of 996 recently discharged or laid-off workers in Ohio found that those who said they suffered a great deal of financial hardship were nearly three times as likely to file lawsuits as those who said they suffered no financial hardship.[6] High-quality outplacement may help companies avoid this type of lawsuit by shortening the job search, so clients get back on the payroll sooner and avoid financial hardship.

However, ex-employees are more likely to file a wrongful termination suit not over a desperate need for money, but over their dignity. It is not so much the fact that they face a period without steady income, but that the company put them in such a humiliating position. The same Ohio study found that "of the respondents who felt they had been treated with 'very much' dignity and respect at the time of their dismissal, *.4 percent reported filing claims,* whereas of those who said they had 'not at all' received respectful and dignified treatment, 15 percent reported filing claims." Moreover, the study found that wrongful termination claims were filed by less than one-fiftieth (1.8 percent) of those who felt that they were given a very complete explanation of the reason they were losing their jobs, whereas claims were filed by nearly one-fifth (19.5 percent) of those who reported being given no explanation at all.

High-quality outplacement minimizes the lawsuits from this cause as well. Pre-termination planning ensures that companies carry out the downsizing in an open and straightforward way, so both terminated and remaining employees feel informed and treated with respect. Moreover, counselors present on-site on the day of termination immediately help employees cope with the job loss, so that their last impression of the company is more positive.

Most importantly, high-quality outplacement guides discharged employees through the job search process and prepares them for future job changes. Clients are matched with an individual counselor who serves as a point of contact, supplier of advice, and source of motivation. With a personal coach encouraging them, clients explore their own strengths, “skill” themselves up, reshape career paths, and move on more successfully to their next positions. Professional resume writers/marketers prepare their resumes, which are then sent out to jobs all over the nation through an ad-sourcing service. They practice and sharpen interview skills. They find equivalent or better jobs—fast.

Studies show that addressing psychological needs helps former employees find jobs faster. Clay (1998) cites research by psychologist and University of Texas professor James W. Pennebaker, Ph.D., who conducted a study among 63 laid-off engineers, for whom he was hired to help cope with the job loss. One group wrote out their deepest feelings about the layoff, another group wrote on an emotionally neutral topic, and a third group did no writing at all. After eight months, with the same number of phone calls having been made and the same number of resumes sent out, 52 percent of the expressive writing group had found jobs, while 20 percent of the two control groups had found jobs. High-quality outplacement works because it allows clients first to come to terms with their psychological needs and second to start the job search process, rather than dumping their feelings of betrayal and anxiety into the job hunt.

Quantifying the costs

What does high-quality outplacement really mean for a company’s bottom line? Even based on rough estimates using conservative figures, I believe that high-quality outplacement is worth the financial investment.

Unemployment insurance taxes

To cushion the impact of job loss, unemployment insurance provides workers who have lost their jobs through no fault of their own with payments for a given amount of time or until they find new employment. The precise system of unemployment insurance tax is implemented by the state and so varies widely across states and by industry. However, many are based on periodic reassessments of a company’s “experience rating,” calculated from layoff rates and benefits collected. The state unemployment insurance tax is usually structured like a zero-sum game, so that all the money a company’s employees collect in benefits from the state pool is eventually paid back in taxes. That is, the more former employees tap into the unemployment insurance fund, the higher the tax rate the company will face in the future. Thus, the faster that discharged employees become reemployed, the fewer the benefits collected, and the lower the company’s tax hike.

Health insurance premiums

Cutting reemployment time also saves companies the cost of continued health insurance coverage for discharged employees—a cost that is growing steadily. According to a Kaiser Family Foundation report, Claxton et al. (2003), monthly premiums for employer-sponsored health insurance rose 13.9 percent between spring of 2002 and spring of 2003, marking the third consecutive year of double-digit premium increases. The Kaiser study found that employers providing health insurance coverage in 2003 paid an average of $2,875 per single-person plan and $6,656 for each family plan.[7] Companies that continue to provide health insurance to discharged employees clearly have an interest in helping former workers find new positions as quickly as possible.

Health costs are a factor when considering the downsizing survivors, as well. Kivimaki et al. (2000) found that survivors of a major downsizing exhibited a marked deterioration in health condition. Of course, more health-related problems mean higher premiums. Companies that provide outgoing workers with high-quality outplacement may find that the stress and other health issues among the remaining employees are also lessened.

Absenteeism

For the private sector in 2003, the average absence rate, according to the U.S. Bureau of Labor Statistics, was 3.2 percent, excluding “personal days, holiday, labor dispute, and other reasons.”[8] Kivimaki (2000) suggested that average absence rates may increase by 2.3 times after a major downsizing. Again, this increased absenteeism is a response to the perceived unfair treatment of former coworkers. High-quality outplacement may reduce this job insecurity and stress. On-site presence at termination and helping former employees find jobs faster serve to further relieve the worries of surviving employees. Assuming that high-quality outplacement can cut this increase in absenteeism after downsizing by one-third, this saves $552 per $50,000 employee and $2,760 per $250,000 executive.

Turnover

The cost of turnover is absolutely huge, because it encompasses pre-separation costs (the employee pursuing the job hunt while at work), separation costs (exit interview and administrative costs), vacancy costs (hiring a temporary substitute), recruitment costs (advertising, interviewing, deliberation time), and finally training and orientation costs (instruction manuals, coaching, decreased productivity at first). As turnover increases after downsizing due to job insecurity, stress, decreased company loyalty, and decreased job satisfaction, these costs skyrocket.

Litigation

This is becoming an increasing problem for downsizing companies, as more and more former employees decide to file suit and more and more juries rule in their favor. Consider the following costs: Average attorney fees are $250,000 if the case goes to trial and $95,000 if the case settles prior to trial.[9] Although only 4 percent of civil lawsuits go to trial and 96 percent settle,[10] the average cost to settle an employment lawsuit in 2003 was $300,000.[11] Thus, depending on the outcomes, lawsuits filed by former employees may cost the employer anywhere from just the loss of time in preparing a defense to upwards to $456,794 if the case goes to trial and the jury rules in favor in the employee. Outplacement can greatly decrease the probability of former employees filing lawsuits by calming tensions on the day of termination and inspiring affected individuals with realistic hope for the future. In the Lind et al. (2000) study of terminated Ohio workers, 8.1 percent of those who had received no help at all filed claims, while 2.8 percent of employees who said they had been given a great deal of help filed claims. High-quality outplacement may decrease these odds even further. Taking into account the probabilities of filing suit, going to trial, and then winning or losing the case, the average litigation risk without outplacement is around $1,490,000, while the average risk with some outplacement is around $514,000 and the average risk with high-quality outplacement is only $92,000.[12]

Overall costs

Table 2 describes the costs with and without high-quality outplacement for a company of 1,000 employees at an average salary of $50,000 that must let 100 employees go. Table 3 describes the costs for a company of 1,000 employees that must let ten of 50 executives go (salaries of $250,000), assuming 26 weeks of severance and benefits.

Both tables clearly show that high-quality outplacement can greatly reduce the hidden costs of organizational change, having a significant impact on a company's bottom line.

The right choice

Though all outplacement providers offer a healthy solution to the uncertain economy of today, there most certainly are differences in the types of services provided. Nominal outplacement fulfills a requirement but leaves employees feeling frustrated, helpless, and bitter toward the former employer. While this may cost less initially, the backlash from angry ex-employees and dissatisfied surviving employees can outweigh all the savings. High-quality outplacement, on the other hand, presents an all-encompassing approach to the job search that improves clients' lives from the

TABLE 2

Costs for company of 1,000, laying off 100 employees

Contributing factors	Cost without outplacement	Cost with high-quality outplacement	Savings
Unemployment insurance	$540,000	$360,000	$180,000
Health insurance, 12 wks	150,484	150,484	0
Health insurance, 20 wks	250,807	173,893	6,914
Absenteeism	1,380,000	883,200	496,800
Turnover	4,250,000	2,430,000	1,820,000
Wrongful termination lawsuits	1,487,624	91,829	1,395,795
Total (20 wks)	7,908,431	3,938,922	3,969,509

Note: Costs for company laying off 100 employees, at an average salary of $50,000.
Source: See note 12.

TABLE 3

Costs for company of 1,000, laying off ten executives

Contributing factors	Cost without outplacement	Cost with high-quality outplacement	Savings
Unemployment insurance	$270,000	$180,000	$90,000
Health insurance	27,171	17,389	9,782
Absenteeism	306,667	196,267	110,400
Turnover	945,000	540,000	405,000
Wrongful termination lawsuits	353,387	21,814	331,573
Total	1,902,225	955,470	946,775

Note: Costs for company laying off ten of 50 executives go (salaries of $250,000), assuming 26 weeks of severance and benefits.
Source: See note 12.

inside out. Given the tools to continue to be successful in their careers, most clients find comparable or better positions, leaving them with fewer hard feelings toward their former employer.

Providers of high-quality outplacement services understand each company's culture, objectives, and needs, just as they strive to understand each client's beliefs, goals, and aspirations. Throughout the entire process of downsizing, these providers push for the smoothest transition possible by avoiding the potentially dangerous costs of a mishandled staff reduction. However, ultimately, the company undergoing restructuring chooses which outplacement provider to use. With an understanding of the possible effects of downsizing, companies have the opportunity not only to recognize, but also to combat the hidden costs of organizational change by doing what is right both fiscally and morally. Investment in the right quality of outplacement services helps returns on profits, human capital, and community relations.

NOTES

[1]Proposed by Congress, a personal reemployment account provides certain eligible individuals currently receiving unemployment insurance (UI) benefits, or some UI exhaustees, with a special worker-managed account of up to $3,000 (the exact amount to be determined by the state) to purchase intensive reemployment, training, and supportive services.

[2]See Knowledge Systems and Research and Anderson (2001).

[3]See Kivimaki et al. (2000).

[4]Houston (1992).

[5]See Jones (1998).

[6]See Lind et al. (2000).

[7]See Claxton et al. (2003).

[8]U.S. Bureau of Labor Statistics (2004).

[9]See Workplace Compliance Training Services (2003).

[10]See Ostrom and Kauder (1994).

[11]See Shroeder (2003).

[12]Monetary figures and tables 2 and 3 based on extrapolation of data related to the propensity to file lawsuits (Lind et al., 2000), the effect of offering outplacement on filing suit (DBM, 2003), the percentage of suits going to trial (Ostrom and Kauder, 1994), jury outcomes (John, 1996), attorney fees (Employment Law Learning Technologies, 2002), settlement costs (Shroeder, 2003), and average/median jury awards (Jury Verdict Research, 2004).

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