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Planning Executive Dismissals: How to Fire a Friend

Consider the following case: for over three years, Bellweather Corporation and Helist Corporation had been courting each other regarding a possible merger. Both manufacturing companies produce various types of customized pumps for use in the processing industry. By merging two small companies with annual sales of $30 million, a stronger company could emerge with greater potential for capturing a larger share of the market with reduction of operating expenses.

In 1980, the sudden death of Helist's owner and founder made the possibility of a merger an actuality. The president of Bellweather assumed the responsibilities of chief executive officer of Helist/Bellweather Corporation.

One of the first problems facing the president was the assignment of senior management responsibility. Bill Davenport, age forty, had joined Bellweather as director of manufacturing when it was a struggling $3 million family business in 1965. He was a hard-working, loyal employee, with good relations with the Bellweather family. Back in 1965, he was excellent at supervising the 25 operators who reported to him. As the manufacturing operation expanded, Bill was promoted to vice-president of manufacturing and was made responsible for the work of 150 operators and 4 foremen. Bill was the type of person who liked having direct contact with operators, and there were complaints by foremen that Bill did not let them supervise. Production always seemed to be late, and Bill did little coordinated planning for the future.

As long as Bellweather was a relatively small company, his deficits as a manager did not outweigh the fact that he was a loyal employee who had contributed to past success. There was no question that Bill was not capable of adequately running the expanded manufacturing operation, though as vice-president of manufacturing at Helist he should have been named vice-president of manufacturing for Helist/Bellweather. The president knew that Bill would be upset at not getting the senior manufacturing job, and was coming to the conclusion that Bill was not suited to any senior management position in the new company. As the president saw it, he had the following three options.

- Option 1: Fire Bill, although this seemed like cruel punishment for a hard-working and loyal employee.
- Option 2: Keep Bill in his present position with the title of assistant vice-president of manufacturing but remove all real authority from him and give it to the new vice-president. This

move would certainly demoralize Bill, but he would not resign. There really was nothing of significance he could do for the company. The job had outgrown him. Can a medium-size firm afford to keep highly salaried administrative "deadwood" on the payroll?

Another drawback in selecting this option was the impact it might have on Helist/Bellweather's management succession plans. Retaining Bill in an important line position would send a clear signal to younger subordinates that the company places a higher value on loyalty than on ability to achieve end results. Bill could easily remain in this position for another twenty-five years, blocking opportunities for younger, more competent managers to move up in the organization. The long-term results could be that the company might lose some of its more aggressive younger managers, leaving only relatively weak subordinates capable of internal promotion.

- Demote Bill to a lower level of management more suitable to his talents. If Bill accepted a lower-level position with a corresponding reduction in pay, there would be some short- or long-term morale problems with Bill. If Bill received the same level of pay for going to a lower-level job, the company would set a dangerous precedent in terms of the perceived equity of the Helist/Bellweather salary administration program.

The Helist/Bellweather case illustrates a central dilemma for senior managers during a merger, consolidation, or any major restructuring of the senior corporate team: there will be managers you do not wish to keep, nor do you wish to fire them.

Large organizations have options for resolving this dilemma that are not or should not be available to smaller firms. One option available to larger companies is to compensate for perceived managerial weakness by providing strong staff support. Another option is to create unique niches for the manager in a staff area. A third option is to hire a competent manager in a position one level above the executive but have the new manager do most of the actual work. Effectively managed smaller firms, however, generally do not have the luxury of adding unnecessary staff support, imposing additional layers of management, or creating unique positions for people.

Larger firms also have options for helping weak managers through sending them to various training programs. But developing required managerial skills takes time. The smaller firm's major competitive edge is its ability to respond quickly and dramatically to changes in the marketplace. This ability sometimes requires locating new talent who can immediately implement the new corporate game plan.

The implication of this analysis is that the most feasible course of action in the Helist /Bellweather case is Option 1. In actuality, most companies are likely to select Option 2. This option is the path of least resistance for a chief executive officer, despite its demoralizing impact on the individual concerned, its lack of justification from a cost-benefit perspective, and its possible negative long-term impact on management succession plans. Few companies select Option 3. While a viable option, it is unacceptable to most employees and creates havoc for any salary administration program that strives for an equitable relationship between employee job responsibility and pay opportunities.

A potential termination action places the dismissing manager in a situation where objective

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business judgment must be weighed against the natural desire not to inflict harm on a valued individual. This situation is particularly painful for chief executive officers of smaller firms because the degree of interaction between senior managers is greater. In smaller firms, there are not enough human resources to create well-defined functional areas. Thus, for example, the director of engineering might get involved in production scheduling. Through this intensity of involvement, a sense of senior executives constituting a "family" is likely to emerge. The perceived sense of loss of a member of this family is likely to be particularly acute.

Under these circumstances, it is likely that the chief executive officer will elect to retain the family member, despite its being against his or her better business judgment. In a revealing study of how companies respond to divisional profit loss, Richard Hammermesh found that executives tend to hang onto programs long after they have proven their lack of value to the company.[1] Executives' emotional commitment to a project or a person can outweigh the actual implementation of required business decisions from a strict cost/benefit perspective.

If business needs require that the executive be dismissed, the company should establish an objective of insuring a rapid, orderly, and successful job transition. The key to dismissing a member of the executive family is to indirectly or directly insure that the job transition is successful.

While humanitarian reasons alone would justify such an objective, there are other reasons as well. A dismissed executive is likely to obtain a new position with competitors or customers. A dismissal action perceived by the executive as poorly planned and cruel may adversely affect the company's future ability to lure talent away from the competitors or to secure new contracts. In order to achieve the objective of a rapid, successful, and orderly career transition for the dismissed executive, the company must carefully consider the conduct of the dismissal interview, and the design of the severance package.

The Dismissal Interview

A general rule of thumb in preparing for the dismissal interview is to hope for the best but to prepare for the worst in terms of the executive's reactions. Of course, the news should not come as a complete surprise. The executive has had many opportunities for feedback during formal and informal meetings. In reality, however, dismissed executives often greet the news with genuine shock and anger.

Part of the reason for the surprise may be that the executive may not have allowed the impact of prior negative feedback to penetrate. The executive may have focused on minor operational successes instead of major problem areas. Never underestimate an individual's ability to ignore or distort reality when the issue involves personal performance.

Another reason why the executive may be genuinely surprised revolves around the competence of the superior in providing clear feedback. Some managers think they are sending clear messages when they are really not.[2] The chief executive officer of an investment company was routinely a severe and caustic critic of his subordinates. The more he became convinced that one of his executives would have to be dismissed, the more polite he became with this individual. He would even compliment the person! The CEO was trying to soften the blow but was really only sending messages that were easily misconstrued by the subordinate.

Timing. It is helpful to think about the day and the month in which the interview is to be held. Many managers prefer to conduct the dismissal interview on Friday afternoon. A Friday meeting allows the dismissed executive a weekend to think things through and to remove personal possessions from the office. Another reason for a Friday afternoon meeting is that the dismissing manager can schedule three hours which can be relatively uninterrupted by urgent calls or last-minute meetings. Most meetings will not require the full three hours, but the dismissed executive should have the courtesy of the manager's undivided attention. Friday afternoons seem to be a time when this is most feasible.

Some months are better than others. It is a rare manager who wakes up on Friday morning to suddenly decide that a particular executive must be dismissed that same day. These decisions are usually made over a period of time.

Table 1. Corporate Response Rate by Month for Mail Campaigns from Job Seekers

Month	Rate
January	100
February	95
March	90
April	75
May	70
June	50
July	60
August	85
September	75
October	90
November	80
December	70

Some months are more favorable than others for being on the job market, particularly for jobs below senior management level. Depending upon the budget cycle, there are times when managers are more willing to hire because they know they have the authority to execute staffing plans. There are also times that are particularly poor for job searching because hiring managers and job seekers tend to be away on vacation.

Table 1 presents a listing of months in terms of favorable corporate responses to mail campaigns instituted by job seekers.[3] Mail campaigns conducted in September tend to bring in 75 percent of the responses for the same campaign conducted in January. The data should be used as a rough guide for weighing the possible negative career consequences for the executive if early action is postponed. It should not, however, be used as an excuse to avoid taking action in removing an executive.

Conducting the Interview

A basic rule of thumb is "Don't beat around the bush." Beating around the bush is an unfortunate side effect of attempting to soften the blow. The president of one company wanted to minimize potential negative feelings which might emerge in his interview with a dismissed director of sales. In his interview with the dismissed executive, he talked about the executive being too high-powered for the job and stated that, "We've got to look into getting you a better match between your high abilities and a reasonable job." Not surprisingly, the executive returned for work the next day, unaware that he had been fired! The blow of dismissal cannot be softened and attempts to soften it can often lead to misunderstandings.

The agenda presented in Table 2 can be used as a guideline in planning the dismissal interview. The dismissal meeting should not be the time to discuss the executive's performance or the company's efforts to keep the person on the payroll. The purpose of the dismissal meeting is to gently but firmly inform the executive that his or her career with the firm is over. If the executive is interested in discussing performance issues, there will be opportunities at a later time, if the executive desires. This interview is not likely the appropriate time to overload the executive's information-processing capabilities with negative feedback.

Even managers who are war-weary dismissal veterans can benefit from a ten to twenty minute "rehearsal" with a trusted associate, who can constructively critique the manager's performance. The few minutes involved in this preparation can have important long-term consequences in terms of how the executive views the dismissing managers.

What the Company Provides

Many small firms think of the severance package in terms of granting the executive a specific

Table 2. Suggested Agenda for the Dismissal Meeting

Item 1. The executive has been dismissed, and the decision is final.

Item 2. The company values the executive's past service and wishes to minimize the financial and personal trauma associated with finding a position through severance arrangements.

Item 3. The company and the executive should tell a consistent story to in-house personnel, as well as to potential employers. The executive has the option of drafting a memo to the manager detailing what the manager should say in the way of references or explanations about the executive's departure. This memo will be reviewed by the manager and they will discuss it jointly.

Item 4. The executive's existing work load will wind down, projects will be delegated to others, and the executive should soon be in a position to focus full-time efforts on the job search.

number of weeks on salary so that a job campaign can be conducted. That definition is too limited for both the company and the individual.

A severance package should be a formal agreement, signed by the dismissed executive and a corporate official, that details the company's obligation to assist in minimizing the personal and professional trauma associated with the separation. It also details the executive's obligation to the company in order to insure minimum disruption of operations. Each severance arrangement should contain a written description of what the company is providing the executive, and what it expects the executive to provide the company.

The company can provide the executive with assistance in the following areas: compensation, office space, corporate references, and outplacement consulting. Each area is discussed separately, with particular reference to the problem of smaller firms.

Compensation. Large companies tend to operate on a dual system when deciding on how long to provide cash compensation to the dismissed executive. For middle management and below, the decision is made on the basis of personnel department policy. Length of pay-outs is often based on number of years employed by the firm. At the higher levels of management, more discretion is utilized, so that the length meets the unique needs of the executive.

Length of pay-out is best determined by a relatively objective analysis of how long it will reasonably take an executive to make a successful transition. Factors to consider include age, ability to relocate, and business conditions at the time of the severance. Each case should be considered individually, on the basis of its own merits. Sometimes it is difficult for smaller firms to be objective about this issue. Out of a sense of guilt, some firms tend to provide severance terms that are too costly for the firm and have a detrimental impact upon the executive's long-term career. A forty-seven-year-old vice-president of production for a small family business was dismissed as a result of a corporate reorganization. Out of a sense of guilt, the company granted this individual a salary continuation of three years. While disappointed over the job loss, the executive was delighted to have the option of three years to play with. During the first year, he was a member of crew on a yacht. During the second year, he attempted to write the Great American Novel while working on fund raising activities for his alma mater. By the middle of the third year, he was desperately looking for employment. He was now three years older and had a large gap in his work history that he found difficult to explain to potential employers. In addition, a corporate reference he knew he could count on had died.

Local executive recruiters or outplacement consultants can be valuable in providing ideas regarding the probable length of a particular job search.

Base Salary/Bonus Mix. Having decided on the duration of cash compensation, the dismissing manager must next determine the amount of cash compensation. Once an executive has been dismissed, that person's eligibility for bonus payments should be removed. Severance cash compensation is best based exclusively on salary. After all, the executive is no longer contributing to the achievement of corporate goals.

The only exception to this general rule would be if the executive's prior cash compensation came primarily from bonus payments. In order to minimize disruption to the executive's life style during the job search, the amount of the severance arrangement should be based upon an average of the executive's base salary plus bonus earnings over the past twelve months.

One of the objectives of the executive dismissal program is that the next job be located rapidly. As an incentive for acting swiftly, the company might agree to pay a lump sum if a position is located before the termination of the severance package. The lump sum would be the total cash compensation that would have been paid to the executive during severance period less any cash which has already been received.

Noncash Compensation. Noncash compensation represents the various benefits that the corporation provides its executives and other employees. Noncash compensation frequently amounts to over 35 percent of the total compensation package. Significant changes to the noncash mix during the job search could result

in serious financial hardship for the dismissed executive.

The company need not pay for the executive's corporate pension program, or accrued vacation beyond the date of the dismissal interview. Such payments only serve to encourage the executive to delay making the inevitable job switch. On the other hand, the company should seriously consider maintaining its level of contribution to group life and medical disability insurance coverage until the executive locates a new position. The executive would, of course, be required to keep the company appraised of progress at predetermined intervals. Through this action, the company would be explicitly telling the executive that access to medical care and financial security in the event of illness would not be hindered during a time of strain for the entire family. The corporate cost of such a gesture is minimal in relation to the benefit it provides for the executive. If the individual is administratively placed on "lack of work" status (as opposed to "resignation") the individual is still eligible for company insurance benefits while obtaining unemployment insurance.

One of the most important noncash compensation factors a company can provide a dismissed executive is time. During the period of the severance arrangement, the company should explicitly tell the executive that his or her major job is to secure a new job. Existing projects should be delegated to others, and the executive should be assigned no new responsibilities. This concept is easier to say than to implement. Smaller firms are frequently shorthanded, and the temptation is great to ask the dismissed executive to help complete existing assignments. In addition, some dismissed executives will actively seek out projects as a way of avoiding a plunge into the difficult process of job hunting.

Office Space. An important need for the dismissed executive is the opportunity to use office space (not necessarily the executive's current office) and secretarial assistance for conducting the job campaign. Small companies frequently do not have enough space to provide the executive with an office. In addition, secretarial help is often strained to the breaking point in meeting regular business demands. An executive outplacement service can provide assistance by furnishing the executive with office space and secretarial services. Under such conditions, the company could agree to answer telephone calls. As far as the public would know, the executive would begin the job search while being currently employed—a far more desirable position in which to be.

Corporate References. Some dismissing managers avoid directly dealing with the reference issue, preferring to make some vague promise of glowing recommendations. The rationale behind such actions is often to avoid rubbing salt into the wound by discussing the executive's weaknesses. Failure to deal directly with the reference issue, however, can have devastating effects on an executive's career. A senior loan officer for a bank was fired by the president because of his inability to control the quality of subordinates' work. In order to maintain friendly relations with this executive, the president stressed that the dismissal was due primarily to personality conflicts between this officer and several key bank officials. Taking the president at his word, the executive spent twelve fruitless months seeking another position as chief loan officer at smaller banks in the region. In telephone conversations with potential employers, the executive's chief executive officer honestly discussed the individual's management difficulties.

Corporate references form the framework around which the dismissed executive can develop a realistic job search. A written agreement between the company and the former executive regarding references assists greatly in avoiding a lengthy and frustrating job campaign. Even if the references to be given are less than glowing, the executive can continue to use them by "inoculating" potential employers: "When you call my former boss, he will tell you I am a weak manager. There were certain circumstances in the bank at the time, which, in my view, resulted in inadequate control over subordinates' work." This prepares the potential employer for unfavorable comments.

The formal severance arrangement need not include references. It should, however, contain a paragraph stating that the dismissed execu-

tive has the option of writing a desired reference and submitting it to the dismissing manager for approval. The manager will review the reference and discuss it with others. A meeting will be held with the executive to review differences in perceptions and to finalize a written version.

Under some circumstances, the negotiation of written references is too emotionally charged an issue for the executive and the dismissing manager to handle face to face. An executive outplacement consultant or other external consultant can act as impartial go-between in negotiating the formal reference.

Once the reference is in writing and signed by all parties, it should be treated as gospel. It will represent the framework around which the executive will develop a job campaign. Some former employees have been known to test the sincerity of their bosses' pledges by having friends call and ask for a reference for fictitious positions.

Outplacement Services. A competent, local executive outplacement service can significantly ease the trauma for the company and the dismissed executive by acting as a go-between in negotiating references and in providing temporary office space and secretarial services. Outplacement services do not place the executive in a new position but assist the executive in conducting the job campaign in such a way that a new job is found more quickly and effectively than if the executive were operating without such assistance. According to one study on the subject, 80 percent of executives who elect to participate in outplacement services are relocated within three to six months. Of this number, 65 percent are able to locate positions with higher salaries than the ones they left.[4] Outplacement services have been utilized by corporations since the 1960s, and there are outplacement firms in most major cities. Services provided by outplacement consultants include:

- appropriate matches between the executive and the next job through identification of career strengths and isolation of suitable job markets;
- contribution to an effective job campaign through coordination of administrative matters, such as mass mailings, design of resumes, and corporate research;
- assistance in development of a family budget for the duration of the job search;
- minimization of trauma to the family through family goal-setting conferences;
- rehearsal and feedback in mock job interviews to increase the probability of success in actual interviews;
- provision of an appropriate network of executive recruiters; and
- advice regarding salary negotiation strategy.

A company need not go to the expense of providing executive outplacement service for every dismissed employee. However, the assistance is particularly appropriate under one or more of the following conditions:

- The executive has been out of the job market for five or more years. Such people are often rusty in terms of developing job campaigns, and an outplacement service can help them organize their efforts quickly and effectively.
- The company does not have the space, secretarial resources, or the desire to help the executive coordinate the job campaign on an in-house basis.
- The company wishes to provide extra assistance to visibly demonstrate that it does think highly of the executive as an individual.
- The executive's age or salary requirements might make the job campaign a particularly lengthy process.
- The executive's senior position in the company makes it difficult for him or her to accept in-house advice.

Outplacement service should not be confused with executive recruiting. Article IV of the Code of the Association of Executive Recruiting Consultants specifically prohibits members from engaging in dehiring practices. Violation of this code means that recruiters bill one company for assisting in an individual's termination and then charge another company an additional fee for placing the same individual. The hiring firm has the right to insist that its executive recruiters work only for their interests when taking on assignments. Recruiters who double-bill can be perceived as having mixed loyalties.

In selecting an outplacement firm, it is important that the credentials of consultants be properly evaluated. Many firms are staffed primarily by personnel professionals. Such profes-

sionals often have solid job counseling skills, but dismissed executives may not perceive them as having firsthand understanding of their unique problems as line managers. Some firms maintain a network of retired and semi-retired senior line managers who are trained in job campaign skills and serve as the dismissed executive's mentor until the campaign is successfully completed.

What the Executive Provides to the Company

As mentioned earlier, the dual purpose of severance arrangements is protection of the company as well as protection of the executive. Many firms require that executive employees sign nondisclosure or noncompetition agreements at the time of hire. These signed agreements should be xeroxed or paraphrased as part of the package. As part of the formal acceptance of the package, the executive may also be required to refrain from public condemnation of the firm or spreading malicious rumors. Since the nature and scope of such agreements is partially determined by local law, check with an attorney to insure proper phrasing.

Conclusions

While the dismissal of an executive is nearly always a traumatic event for the individual, it may be a necessary one for the company. Companies which seek to operate with lean payroll costs may have to resort to dismissal action more often than other firms.

While dismissal may be necessary for the company, it need not necessarily be brutal for the executive. Careful planning of the dismissal interview and careful thought about the design of severance arrangements can significantly ease the pain and insure the likelihood of a speedy and appropriate future job match for the executive. Severance arrangements should explicitly state the company's obligation to the executive in terms of cash compensation, noncash compensation, written references, and outplacement consulting services. They should also explicitly state the executive's obligation to the company in terms of previously signed nondisclosure and noncompetition agreements. Selection of an appropriate local executive outplacement firm can be a valuable and helpful demonstration of the company's sincere desire to minimize the personal or professional trauma associated with the dismissal.

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