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Firms Face Myriad Pressures to 'Churn' Employees as They Upgrade Job Skills
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Last year, pay-phone manufacturer Elcotel Inc. came face to face with a disturbing trend: Cellular telephones were making its product irrelevant. Sales of Elcotel telephones were tumbling, and fewer coins were making their way into the machines.

So Elcotel officials did what most companies in its place would do. It closed one of its two factories and fired 70 employees, most of them assembly workers.

A small-scale tale of corporate downsizing? Not exactly. The Sarasota, Fla., company at the same time was embarked on a hiring spree, adding engineers and software developers to design pay-phone software it plans to sell to buyers of its phones. And even more "churning," as economists call the process of hiring and firing at once, is on the way as Elcotel builds up its technology division while reducing its manufacturing side.

As for the lost workers, the company says it would have been impossible to retrain them. "You're talking about the difference between an $8-an-hour assembler and a $100,000-a-year software engineer," says Chief Executive Michael Boyle. "The skills were not compatible."

In With the New

That may sound cold, but get used to it. These days, many companies are firing and hiring at the same time, dumping outmoded or redundant employees and adding new ones with very different skills. Allstate Corp. is doing it. PricewaterhouseCoopers LLP is doing it. So are BellSouth Corp., Adobe Systems Inc. and a mess of others.

The trend goes a long way toward explaining a curious anomaly of the current, record-setting economic boom: Layoffs, which normally fade during good times, remain widespread.

According to Challenger, Gray & Christmas Inc., a Chicago personnel-consulting firm that monitors reported layoff plans, U.S. companies announced 675,000 layoffs in 1999 and 678,000 the year before, the highest levels for the decade and up from just 111,285 in 1989. Meanwhile, the Bureau of Labor Statistics, whose figures include layoffs that weren't publicly announced, says the number reached a preliminary 1.57 million in 1999, though it expects to revise that total downward. (The bureau began compiling such data in 1995, and they include only layoffs of 50 or more employees.)

Cuts Keep Coming

Those figures don't include more recent announcements from the likes of Coca-Cola Co., which in January said it will shed 6,000 employees, or 20% of its work force. Late last month, J.C. Penney Co. said it will shutter about 300 department and drug stores, resulting in an undetermined number of layoffs. Neither company announced major hiring plans at the same time.

That layoffs are so widespread this late in the business cycle is "stunning," says Diane Swonk, chief economist at Bank One Corp. in Chicago. By contrast, years of strong growth that came late in previous expansions were "when you added fat, when costs were added on, travel costs expanded, and excesses came out."

Of course, some of the latest layoffs are at companies or in industries that haven't benefited much from the '90s boom and the new economy. Bethlehem Steel Corp., for example, recently said it would slash 15% of its salaried work force, partly due to growing global competition, after a loss of $183 million, or $1.72 a share, in 1999. Mergers and acquisitions have taken a toll, too: Officials at the new Exxon Mobil Corp. plan to lay off as many as 16,000 people, 2,000 of whom are already gone, partly to eliminate redundancies created by the merger of Exxon and Mobil.

From the Bottom Up
But something else is at work: Many companies are reconstituting their work forces at a faster pace than ever, hiring just as many as they are laying off, or hiring fewer, but more-expensive, workers -- though these moves aren't always united under a single, explicit strategy. Some of the companies are thriving and simply want to bring in a new set of skills so they can take advantage of trends involving the Internet or e-commerce. Others, such as Elcotel, are rebuilding themselves from the bottom up.

In a recent survey, the American Management Association found that 36% of the approximately 2,000 companies contacted created new jobs at the same time that they cut existing jobs during the year ended June 1999, up from 27% the year before. "More hiring, more firing, and more companies doing both at once," the report's authors wrote.

The trend resurrects the notion of "creative destruction," popularized in the 1930s by Austrian economist Joseph Schumpeter. He argued that capitalism tends to reinvent itself through chaotic, disruptive change. For Mr. Schumpeter, and many economists today, lots of job cuts and the resulting churning of the labor force are a sign of progress, not trouble, because they mean companies are trying to become more efficient rather than sit fallow.

It isn't necessarily good news for the laid-off employees, who are left to wonder where they will go now that their skills are suddenly out of favor. Churning "just doesn't make sense," says Gini Solokis, a former administrative assistant who worked at Elcotel for 12 years and was laid off, effective mid-February. "It seems like companies could find a way to put people into other positions," she says. "But I guess the world is changing, and you just have to accept it."

Good or bad, the "churn" seems to be reaching unprecedented levels as companies that once might have retrained employees for new roles, or waited for them to leave via attrition, are now jettisoning them to make room for new blood.

For one thing, companies are more wary of accumulating fat than in past economic cycles. Also, technology is changing so fast and competition is so keen that companies must act quickly when an old business line sours and a new one beckons. So whereas it took decades for boilermakers, cobblers and elevator operators to become outmoded, in today's climate, factory workers or even computer programmers can become obsolete in just a few years.

Making it all easier is the fact that there is less guilt about layoffs nowadays. With the job market about as tight as it can get, employees who are dumped are more likely to land on their feet than in the past.

Bill Alper, a management consultant at Philadelphia-based Hay Group, says that until a few years ago, the trauma -- and bad publicity -- associated with layoffs made executives "feel morally in question if they were hiring at the same time they were downsizing." Now, after watching many companies go through downsizing in the early 1990s and survive unscathed, employers feel less angst about it. When executives talk about layoffs now, "the tone is different," Mr. Alper says. "It's just become another management tool."

New-economy companies are leading the way. Adobe Systems, of San Jose, Calif., announced last year that it would lay off more than 300 people in the U.S. and Scotland, including some technical-support staff. But, using some of the money saved from layoffs, the maker of desktop-publishing software is seeking to fill more than 150 jobs in the U.S., according to its Web site, many of them in marketing and research and development. A company official says Adobe plans to hire at least 25 engineers and others by the end of the year to develop and market new technologies in its Seattle office.

In January, Amazon.com Inc. announced plans to lay off about 150 employees, or about 2% of its work force. Though the company declines to discuss the layoffs, its Web site posts several dozen job openings, including a slew of software-development posts. "We remain a growth company," the company's spokesman, Bill Curry, said when the layoffs were announced.

The trend isn't limited to new forces in the new economy. AT&T Corp., one of the great reinvention stories of the 1990s, has been hiring and firing simultaneously for several years. In 1996, it initiated a multiyear program to cut about 40,000 jobs, trimming accountants, marketing managers, telephone operators, repair people and other employees; in 1998, it announced plans to eliminate 18,000 more jobs, about 1,800 through layoffs. But since 1996, the company has hired more than 10,000 sales agents, software developers, Internet specialists and others outside the company's traditional long-distance business.

Shrinking and Growing

"Our employees know that there are areas of our business that are shrinking because of changes in the marketplace, but there are also portions that are growing," says Mirian Graddick, executive vice president for human resources at AT&T. "And they fully expect that while we can be hiring in one part of the business, we're going to be firing in others."
Even farther from Silicon Valley is Allstate. The Northbrook, Ill., insurer announced in November that it would slash about 4,000 positions through a combination of layoffs, attrition and redeployments, saving the company about $600 million a year. Much of the money will go to help finance a $1 billion effort over the next two years to launch an Internet and telephone sales network. The strategy includes hiring hundreds of software developers, computer technicians and others.

Company officials say the decision to fire and hire at the same time was unavoidable. "Increasingly, customers want to be able to access Allstate in a variety of ways," including through the Internet, says Peter Debreceny, vice president of corporate relations at Allstate. But to do that, "there's a different skill set required" than what the company had on its payroll, he says.

Then there's Elcotel. The company got its start in the mid-1980s, when it launched a line of telephones that could be sold to companies competing with the newly formed Baby Bells. Before the federal government broke up AT&T in 1984, regional Bell companies controlled the public phone market, and routing and billing calculations from public phones were handled through company-owned central switching stations.

Elcotel's new phones featured computers that could process the billing and routing calculations within each phone, meaning they could be owned by practically anyone, not just companies with big switching stations. Business boomed: During the fiscal year that ended March 31, 1999, it raked in $65 million in revenue and had about 320 employees.

Then, cellular telephones cut into Elcotel's market. For the quarter ended Dec. 31, the company reported a loss of $1.48 million, or 11 cents a diluted share, on revenue of $12.7 million.

Mr. Boyle, president and CEO, says Elcotel could have just trimmed staff and concentrated on earning more with fewer people, in part by expanding its core business abroad (about 20% of the company's sales now come from other countries) -- an approach followed by some competitors. But in November, the company took the more radical step of shutting one of two factories. Further, it contracted with another Florida manufacturer to make Elcotel phones, including a new phone called Grapevine that features a video screen and Internet access.

The company says it will save $2 million from the layoffs, which will help it pay for the 20 to 30 engineers and software developers it needs to focus on designing software to sell to companies for use in the Grapevine phones.

All that was little comfort to some employees. Mr. Boyle says one scrawled obscenities directed at the company in a stall in a company bathroom. "I'd rather not discuss my personal feelings" about the layoffs, says one laid-off employee who asked not to be identified. "None of us took it lightly."

Still, nearly all of those laid off now have other jobs, according to former employees and local unemployment officials. Dick Owens, president of Genesis Manufacturing Inc., the company now making some of Elcotel's phones, says that he offered jobs to several former Elcotel workers, but that they all turned him down, saying they didn't want to make the longer commute to its offices in Oldsmar.

Actually, 'a Blessing'

Meanwhile, even Ms. Solokis, the former Elcotel administrative assistant, is upbeat about her prospects. After the initial shock, she now describes the layoff as "a blessing" for allowing her to pursue other interests. She recently launched a Web site to market ceramic angels, plaques and other decorative items she makes, and she is busy lining up free-lance work as an administrative assistant that allows her to pick her own hours and work part of the time from home. If all that doesn't generate enough income, she says, "there's scads of ads" for good jobs in the local papers.

"I have that severance package, and that's supporting Gini as she figures out what she wants to be when she grows up," Ms. Solokis says. "My friends are jealous."

For Elcotel, any potential trauma associated with laying off people wouldn't have stopped it, Mr. Boyle says. "I don't think people were willing 10 years ago to say I'm going to remake my business," he says. They would have been more inclined to try to drive out competitors just by cutting costs, thinking, "I'll be the last guy here, I'll be the only survivor."

These days, he says, "the market is much more efficient in making this kind of decision."

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