

Analysis/Planning/Outsourcing/ Mergers/Layoffs

25 CASE

Employee Layoffs at St. Mary's Hospital

St. Mary's Hospital is a medium-sized, 400-bed hospital in a northwestern city. It was established in 1908 by the Sisters of the Sacred Heart, an order of Catholic sisters. The facility has grown gradually over the years and is now the third largest hospital in the city. It is entirely nonunion and has never experienced an employee layoff since its inception.

Robert Barry has been the CEO of the hospital for 11 years. Eight years ago, he hired Sharon Osgood as director of Human Resources. Osgood has an MA in Human Resource Management and has been instrumental in formalizing the institution's human resources' policies and procedures.

Occupancy rates in the hospital had run between 76 and 82 percent from 1990 to 2002. However, since then, occupancy has fallen to 57 percent. This decline has been experienced throughout the industry and is the result of changing reimbursement policies, emphasis on outpatient services, increasing competition, and the financial meltdown of 2008–2010. The declining occupancy rate has affected this hospital's revenues to such an extent that it ran a deficit for the first time last year. The only response to these changes thus far has been a tightening of requirements for equipment or supply purchases.

At the most recent quarterly meeting of the Board of Directors, Barry presented the rather bleak financial picture. The projected deficit for the coming year was \$3,865,000, unless some additional revenue sources were identified or some additional savings were found. The Board's recommendation, based on the immediate crisis and the need to generate short-term savings, was to lay off employees. They recommended that Barry consider laying off up to 10 percent of the hospital's employees with an emphasis on those in "nonessential" areas.

Barry responded that the hospital's employees had never been laid off in the history of the institution. Moreover, he viewed the employees as "family" and would have great difficulty implementing such a layoff. Nevertheless, since he had no realistic short-term alternative for closing the "revenue gap," Barry reluctantly agreed to implement a layoff policy that would be as fair as possible to all employees, provide a guarantee of reemployment for those laid off, and find additional revenue sources so that layoffs would be unnecessary in the future.

Barry then called Sharon Osgood into his office the next morning, shared his concerns, and asked her to prepare both a short-term plan to save \$3 million over the next year through staff layoffs, as well as a long-term plan to avoid layoffs in the future. Osgood's concerns were that the layoffs themselves might be costly in terms of lost investment in some of the laid-off employees, higher turnover costs, lost efficiency, potential lawsuits, and lower morale. She was concerned that the criteria for the layoffs not only *be* equitable, but also *appear to be* equitable to the employees. She also wanted to make sure that those being laid off received "adequate" notice so they could make alternative plans or so the hospital could assist them with finding alternative employment. Since the hospital had no previous experience with employee layoffs

and no union contract constraints, her feeling was that both seniority and job performance should be considered in determining who would be laid off.

Osgood knew the hospital's performance appraisal system was inadequate and needed to be revamped. While this task was high on her "to do" list, she also knew she had to move ahead with her recommendations on layoffs immediately. The present performance appraisal system uses a traditional checklist rating scale with a summary rating. Since there is no forced distribution, the average ratings of employees in different departments vary widely.

Exhibit 2.1 shows the summary ratings of employees in each department. Most supervisors across all departments rate many of their subordinates either "satisfactory" or "outstanding." Osgood has done a quick review of those employees whose overall ratings were "unsatisfactory" or "questionable." Most are employees with less than three years of seniority, whereas the "satisfactory" employees have worked an average of seven years for St. Mary's Hospital. Osgood is preparing to submit her recommendations to Barry and has come to you for advice. Exhibit 2.2 provides a summary of the distribution of employees and payroll expense by department for the most recent year.

QUESTIONS

1. Identify the major problem or problems at St. Mary's Hospital and the causes.
2. What are some alternatives for dealing with these problems? For example, is it possible to avoid employee layoffs through the use of attrition?
3. Develop a plan for implementing employee layoffs over the next year that will generate \$3 million in savings. Give specific details concerning departments affected, the use of seniority versus merit, the amount of notice, and out-placement activities. What additional information (if any) will you need? Provide a rationale for each recommendation, together with reasons why other alternatives were not chosen.
4. What might be the effects of a layoff plan on "survivors" in terms of morale, job security, organizational commitment, productivity, and career planning? How could you avoid or minimize any potential problems in these areas?
5. What long-term solutions do you see for St. Mary's Hospital once it gets its cash flow problems under control and eliminates its deficit? What can it do to increase revenue so that future layoffs will not be necessary?
6. What difficulties exist in using performance as a criterion for layoffs? How can such difficulties be overcome?

EXHIBIT 2.1 *Percentage Distribution of Performance Appraisal Summary Ratings by Department at St. Mary's Hospital*

Department	Unsatisfactory: Needs to Improve Substantially	Questionable: Needs Some Improvement	Satisfactory: Meets Normal Expectations	Outstanding: Substantially Exceeds Norms
Nursing	6.4	6.4	54.2	33.0
Allied Health	5.7	6.2	47.8	40.3
Central Administration	2.7	3.1	67.5	26.7
Dietetics/Nutrition	2.1	6.2	68.3	23.4
Housekeeping/Maintenance	7.8	12.4	54.6	25.2
Medical Staff	1.1	6.2	63.8	28.9

EXHIBIT 2.2 *The Distribution of Employment and Payroll Expenditures at St. Mary's Hospital*

Department	Number of Employees	Payroll (\$)	Annual Turnover Rates (%)*
Nursing	602	\$15,050,000	12.2
Allied Health Departments	261	5,742,000	8.7
Central Administration	154	6,160,000	3.5
Dietetics/Nutrition	65	1,430,000	7.3
Housekeeping and Maintenance	36	540,000	8.4
Medical Staff	32	1,680,000	2.1
TOTAL	1,150	\$30,602,000	9.5*

*Represents weighted average turnover for all employees.