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## Companies Considering Layoffs Face Tradeoff Between Diversity and Experience

Headlines announcing impending layoffs and furloughs abound as the economy declines due to the spread of the COVID-19 virus and a downturn in the oil and gas sector.<sup>1</sup> Depending on the demographics of their employees, some firms may be particularly susceptible to risk of adverse impact in layoff and furlough decisions. Firms prioritizing retention of more experienced employees, whether due to the employees' greater accumulation of firm-specific human capital or the firm's organizational culture, may face risk of apparent adverse impact among the firm's race-ethnic and gender diverse employees.

This risk is present for any firm which has recently hired disproportionately more women or race-ethnic minorities relative to white men. This hiring pattern may be the result of younger workers entering the labor market who are increasingly more diverse, or proactive diversity initiatives in which many firms engage. Regardless of the specific cause, firms with higher diversity among their relatively less experienced workforce face greater risk if they prioritize retaining more experienced workers in their layoff and furlough decisions.

Though comprehensive data to directly examine this question at the level of individual firms is not available to us, publicly available industry data provide some insights into which sectors of the economy may be more prone to this risk. We examined Current Population Survey (CPS) data for employees and compared the share of race-ethnic minorities or women employees between Recently Hired and Experienced groups (defined here as less than two years in the job versus two plus years).<sup>2</sup>

Looking across *all* industries and employees, among the Recently Hired group, 69.5 percent of employees are race-ethnic minorities or women. Among the Experienced Employee group, 64.6 percent are race-ethnic minorities or women, for a difference of about 4.9 percentage points. This means that, across industries and employees, race-ethnic minorities and women comprise a 4.9 percentage point *larger* share of employees in the job for less than two years compared with the longer tenured group.

## Industries Vary in Tradeoff Between Diversity and Experience

Not all industries will be equally affected by the economic downturn but industries as varied as Retail, Entertainment, Travel, Restaurants, Oil and Gas, and Legal Services are facing especially acute challenges with layoffs and furloughs.<sup>3</sup> While these industries share the economic challenge ahead, they differ in terms of this demographic pattern wherein recently hired employees are more diverse than more experienced workers.

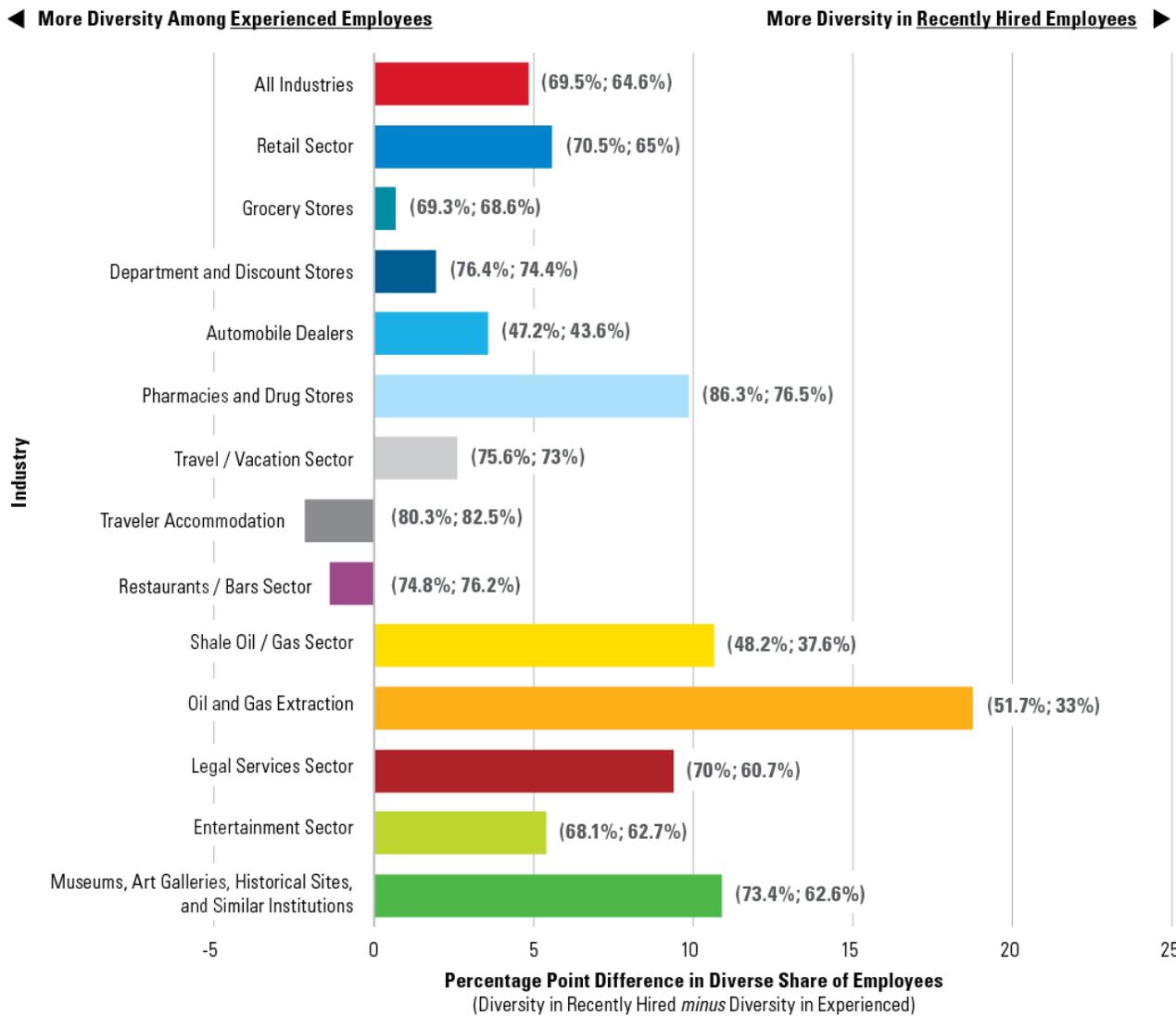
The chart below displays this variation between industries. The red bar at the top of the chart shows the 4.9 percentage point difference in women and minority employees in more versus less experienced employee groups, estimated across industries.

The next several blue shaded bars focus on Retail industries. The first bar—Retail Total—summarizes the same difference measure, but for all Retail industries. The somewhat higher 5.6 percentage point difference suggests that some Retail firms may face somewhat higher risk of adverse impact in layoffs and furloughs.

Within the broad Retail sector there is a great deal of variation, and some of the largest Retail industries show smaller differences in the diverse share of Recently Hired versus Experienced employees. For example, in the Grocery Stores category, race-ethnic minorities and women comprise 69.3 percent of Recently Hired employees and 68.6 percent of

Experienced employees, for a difference of just 0.7 percentage points. Likewise, Department and Discount Stores show a two percentage point difference based on diversity percentages of 76.4 and 74.4. Automobile Dealers show a 3.6 percentage point difference based on diversity percentages of 47.2 and 43.6.

### Industry Differences in Diversity of Recently Hired and Experienced Employees



By contrast, Pharmacies and Drug Stores show a 9.8 percentage point difference based on diversity percentages of 86.3 for Recently Hired employees compared with 76.5 percent for Experienced employees. Firms in this relatively more diverse industry may face higher risk of apparent adverse impact if they make layoff and furlough decisions aimed at retaining Experienced workers.

Compared with the cross-industry difference, the Travel/Vacation industry sector (light gray bar) shows a somewhat lower difference of 2.6 percentage points. This relatively low difference is driven by the Travel Accommodations industry—which shows the Experienced employee group is somewhat *more* diverse than the Recently Hired group (-2.2 percentage points). Firms in this industry may therefore face less of a tradeoff between diversity and experience, should they reduce their workforce in the less experienced category.

The purple bar denotes the Restaurants and Bars sector and shows similar distributions of diversity between the Recently Hired and Experienced employee groups (74.8 percent versus 76.2 percent). Here the more experienced group is also somewhat more diverse. While firms in this industry group face enormous economic challenges, the industry data suggest they may not face a tradeoff between diversity and experience.

There are more pronounced diversity differences between Recently Hired and Experienced employees in the Shale Oil/Gas, Legal Services, and Entertainment sectors. The yellow bar for Shale Oil/Gas shows a 10.6 percentage point difference (48.2 percent for Recently Hired compared with 37.6 percent for Experienced), driven by the 18.7 percentage point difference in Oil and gas Extraction (orange bar) based on 51.7 percent among Recently Hired compared with

33 percent among Experienced employees. In Legal Services, the diversity share of Recently Hired employees is 70 percent, compared with 60.7 percent among Experienced employees, for a difference of 9.3 percentage points.<sup>4</sup> Within the Entertainment sector, the Museums, Art Galleries, Historical Sites, and Similar Institutions industry shows a diversity difference of 10.8 percentage points (73.4 versus 62.6). Organizations in each of these industries may face heightened risks associated with prioritizing retention of experienced employees as part of layoff and furlough decisions.

## Closing Thoughts

Firms facing layoff and furlough decisions should begin with a principled and consistent approach with defensible selection criteria and well documented decision-making. Firms should statistically evaluate whether their decision-making creates the appearance of adverse impact for protected groups. As described above, some firms may face heightened risk due to the more diverse profile of their more recently hired employees. Other firms may face risk relating to age protected employees if, for example, business units slated for reductions are disproportionately populated with older workers. Regardless, all firms considering layoffs or furloughs should be aware of where they face risks of apparent adverse impact against protected groups and approach these decisions with care.

## Notes

1. Unemployment Claims by State: See How COVID-19 Has Destroyed the Job Market, *NBC News*, April 15, 2020; Stocks Slump as Oil Prices Nosedive: Live Market Updates, *New York Times*, April 20, 2020; Affects of COVID-19 on the United States Oil Market, *Yahoo Finance*, April 17, 2020; After COVID-19, The Oil Industry Will Not Return To “Normal”, *Forbes*, April 5, 2020.
2. The circumstances of any individual firm may differ substantially from what these industry-based measures show. The data and figures summarized here are based on national CPS data organized at the Industry Group or Specific Industry and have the benefit of including an experience measure for a nationally representative sample of employees. This data cannot and should not replace more specific data for individual firms.
3. The Employment Situation Report for April, which will be released by the Bureau of Labor Statistics on May 8, will provide much clearer evidence about which industries and sectors experienced the largest job losses during March and the first half of April.
4. A recent *Law360* article addresses a similar point as it relates to diversity efforts more broadly (Coe, Aebra, “Pandemic Could Jeopardize Law Firm Diversity Efforts” April 6, 2020).

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## About Edgeworth

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