

Demotion or termination? How to make the call



If you're faced with an employee who isn't a good fit with his or her current job, is termination the answer or is demotion a better alternative?

The answer is, of course, it depends.

Demotions should always be considered on a case-by-case basis. The key factor is whether or not the employee is worth keeping around. However, a demotion will be more effective in some situations than others.

Poor performance. If an employee is underperforming, you must first investigate to find out why. Is the employee simply unsuited for a particular role, but could thrive elsewhere? If so, he might be relieved at the opportunity to be moved back to a position that better suits his talents and skills.

For example, say an outstanding employee was promoted to management, but is floundering in a supervisory role. Some employees are happier (and better at) doing the work than managing it.

Misconduct. Using demotion as a disciplinary tool for misconduct is dangerous. First, does it actually solve the problem, or will the employee carry those same issues to the other position?

Second, is the demotion consistent with similar situations in the past? If not, you could face legal discrimination complaints.

Third, are you creating an unwanted precedent for how to deal with similar situations in the future?

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Finally, what kind of a message are you sending to other employees? (*"Goof off and get punished with a lighter workload? ... Hey, I wanna get demoted, too!"*)

Restructuring. Losing a valuable employee during a company or departmental restructuring is difficult. It's tempting to try to shuffle the best performers into new roles, even if that means demoting some.

It could be a good move if the demoted employees are truly appreciative to retain a job. It could be bad if other good workers lose their jobs as a result.

Demotion dangers

There are other important caveats to consider before choosing demotion over termination in any situation:

- An employee who agrees to a demotion only to avoid being fired may feel demoralized and have difficulty performing well even in his old, more comfortable position.
- The employee may be embarrassed, considering the public nature of the demotion, and also if the employee becomes a peer to employees he once supervised.
- If the demotion is accompanied by a corresponding pay cut, the demoted employee is likely to leave for a better-paying job. **Tip:** To entice demoted employees to stay, consider offering a bonus for staying on board (payable after a certain amount of time) or keeping them at the same pay level, with the understanding that future pay increases will be lower.

Bottom line: The most successful demotions are ones in which everyone agrees it is the best option. It's a rare situation, however, in which the employee truly wants to take a step back and the employer considers the employee an asset worth retaining. So it is highly important to think through a demotion decision and how you will carry it out.

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5 steps to smart, legally safe demotions

1. Treat the employee with respect. In fact, speak as if the entire conversation is being recorded, to be replayed in front of a jury.

2. Explain the reasons behind the demotion, which should not come as a surprise to the employee. That's because poor performance should be documented and based on objective criteria, and it should be backed by periodic feedback that you've given the employee.

Supervisors sometimes mistakenly believe it's best to say little or nothing at the time of decisions, such as terminations or demotions, or to offer a less confrontational reason for their actions. If the employee feels treated unfairly, this path of least resistance can backfire. It's best to be honest but concise.

3. Explain the new job. Present details on the new position that you'll be offering the employee (job title, chain of command, responsibilities, pay, benefits, etc.).

4. Be prepared for a negative reaction. The employee is likely to be angry or upset, and may balk, object or plead. Stay firm in your decision and be clear about the options you're presenting (i.e., "You have two choices: either you can accept this new position I've just described to you, or you can choose to resign from the company").

5. Have a plan if the employee decides to quit. Best-case scenario: Give the employee the option to leave on good terms with a generous severance package. Worst-case scenario: Ask the employee to collect his belongings and leave the premises.