

# Goodbye or *Auf wiedersehen*

By Laurence Stybel



The 2005 Nobel Prize for Economics was awarded to Robert Aumann and Thomas C. Schelling. Schelling is professor of economics at the University of Maryland and applied game theory to conflict. His focus was on the weapons issues, but his ideas have been applied to a host of business issues.

of parting. A goodbye scenario assumes that once employees physically leave the building, they will never be a factor for the company's future. The relationship was transactional and the transaction is now over.

If the firm defines the termination as a goodbye scenario, the firm should be guided by a business model that says, "What is the least expensive way of terminating this relationship?"

#### AUF WIEDERSEHEN SCENARIO

*Auf wiedersehen* is German for "until we meet again." It has a more open-ended quality than the English "goodbye." In an *auf wiedersehen* scenario, the assumption is that once employees physically leave the building, they may continue to be a factor in the firm's future. But it is unclear what that factor may be.

After their non-compete contracts are over, they may join smaller competitors and become potential allies or opponents in your firm's efforts to develop strategic alliances or acquire competitors. They may join firms that do not directly compete but do touch your industry and become potential referral sources of new business for your company or a potential sources of caution to others about using your company. They may attend alumni programs at their schools and encourage/

discourage graduates from joining your company.

In the Schelling framework, each of these scenarios assumes capability of retaliation plus uncertainty of retaliation.

The best practical defense in terminating employees under these conditions is to "treat people with dignity on the way out because the assured costs of such positive treatment are less than the potential downside retaliatory risks."

#### AUF WIEDERSEHEN VS. GOOD CULTURE

We work with companies that treat departing leaders with dignity on the grounds that "it is good public relations and good for morale if we help former employees achieve a 'soft landing.'" This positive rationale works only in cultures supportive of such a rationale.

The Schelling theory, however, does not depend on an organization having a specific culture for treating people with dignity. It develops a contingency approach to management based on risk assessment.

There may be times when a "goodbye" scenario does indeed make good sense. There are other times when *auf wiedersehen* makes better economic sense.

In applying Professor Schelling's theories, management's failure to take defensive measures with those possessing abilities and options for future retaliation is bad economics. ■

In this review, we will apply some of Schelling's concepts to how HR, finance, and the legal departments establish termination policies. Schelling says, "uncertain retaliation is more efficient than certain retaliation" when bargaining and, "the capability to retaliate is more useful than the ability to defend." Now let's get practical.

#### GOODBYE SCENARIO

As a verb, "goodbye" is the act of parting. It is also an acknowledgement

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