

## Is redundancy the most effective way to reduce employment costs?

From a macroeconomic perspective, job and income losses will only worsen the economy. From the perspective of a struggling employer facing decreased customer interest, this may seem academic. But with unemployment predicted to rise to 6-7% in 2009<sup>1</sup> there are two key reasons to keep redundancy as your very last tactic:

- § the companies who manage to retain their best employees during tough times will be poised to win when the economy improves<sup>2</sup> (and downturns are shorter than boom times);
- § redundancy, particularly when the overall economic outlook is poor, is a particularly damaging form of organisational change for both those made redundant and those left in their companies.<sup>3,4</sup>

Are there any other realistic options? Perhaps, in some cases, the answer is 'no', but before you make people redundant, some other approaches are worth considering.

### 1. *Continuous business improvement, continuous business improvement...*

Ironically, recession is often a time when employers' and employees' interests are most starkly and effortlessly aligned. Employers want to stay in business and employees want to keep their jobs. The best way to keep your employees in jobs is to do everything you can to enhance your business.

Chances are, your business does not do everything perfectly. Your employees and your customers (and, sadly, your competitors) are the people most likely to know and understand its defects, and come up with the solutions. Take every opportunity to communicate with employees and encourage revenue-building, cashflow positive or cost-saving ideas. Emphasise and recognise superb customer service.

The recession might also highlight the business that really is valuable to you. Decreased demand may provide you with the opportunity to get out of some low-margin business, and concentrate on the products and services that really add value.

### 2. *Review your organisation chart and consider redeployment*

While we don't recommend the wholesale elimination of tiers of middle management, we do suggest reviewing your structure. There may be more useful ways of using the people you have. Think longer-term; quieter times provide ideal mentoring, internal training and job rotation opportunities.

### 3. *Manage poor performers*

Tolerating poor performance is never a good idea and when every dollar counts, it can make the difference between survival and not. It may be well disguised – if you noticed some odd arrangements while reviewing your organisation charts, consider whether these are performance-related.

Now is a great time to stop putting up with inefficient arrangements that were established because someone was unable to do their job, and tolerated because you could afford the luxury of an extra person. The classic is duplicate jobs where a highly technical person who is 'no good with people' has been combined with a great team leader, to effectively fill one role.

You may have been able to turn a blind eye to this expensive arrangement when money was pouring in the door, but now is a good time to look at those difficult individuals and question what they are really contributing.

We have yet to hear of one instance where a difficult subject-matter expert or technical person turned out to be indispensable. You may find that the well managed team, with up-and-coming experts of its

own, can carry on quite happily without their prima donna guru – finally, you may have a genuine redundancy on your hands.

4. *Subject to legal and contractual considerations, reduce work hours.*

Depending on your employment agreements, you will need to be very clear about whether this is a temporary measure and any flow-on effects to employee benefits.<sup>5</sup> A 9-day fortnight saves you about 10% of your salary bill and gives employees something nice in return for a reduced pay packet – more time to do what they want. Even the impact on your productivity may be lower than anticipated, with better rested employees.

5. *Encourage or direct people to take Annual Leave*

Paying people to produce nothing in a tough market may seem a strange suggestion. However, there are some good arguments for getting people to use annual leave:

- § Eventually, you have to pay for it. Meantime, it sits as a liability on your Balance Sheet. If your cashflow is actually OK or manageable, and you are just feeling nervous (we will try to avoid the words 'dire', 'bleak' and 'dismal'), or have extra capacity, requiring people to use their annual leave makes financial sense.
- § The tight employment market and consequent recruitment delays placed extra pressure on many employees. Often these individuals took little time off for years. Aside from accumulating substantial amounts of annual leave, they are probably tired. Achieve an OH&S outcome while improving your Balance Sheet - give them an opportunity to recharge their batteries and return with brains fully functioning.
- § A 2-week holiday annually, with no office contact, is a recommended part of a good fraud-prevention policy
- § Even if the work pressure is still on, an arrangement allowing a person to take 1 day's leave per week or fortnight may still be feasible.

The overall message, therefore - if you can, preserve your workforce. Your employees will appreciate it and remember it when things take off again.

## References

1. Stuff.co.nz: <http://www.stuff.co.nz/4812858a13.html>
2. The Motor Trades Association is advising employers to try and keep people on their books by reducing work hours and encouraging the use of annual leave. "Because when things do turn around, one of the big problems is going to be a shortage of skilled staff, so we're going to get another problem at the other end of it all, with not having qualified people," MTA spokesman Steve Downes says.
3. Worrall L, Campbell Fiona, Cooper C. Surviving redundancy: the perceptions of UK managers. [Journal of Managerial Psychology](#) 2000. Vol.15 (5), 460-476
4. Webber M, Campbell I. Labour market outcomes among retrenched workers in Australia: a review. [Journal of Sociology](#) 1997, Vol. 33 (2), 187-204
5. Auckland Chamber of Commerce (with Hesketh Henry). <http://www.aucklandchamber.co.nz/pdfs/Restructuring&Redundancy.pdf>