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Notes from the Field: Rethinking Redundancy

By Bay Jordan

Mass layoffs, or “redundancy” as it is often called in the United Kingdom where I am based, has been an option for owners and business managers since the start of the Industrial Revolution, and a common phenomenon during the last 30 years. A new economic downturn sees it once again becoming widespread, and it is clearly one of management’s primary counter-recessionary tools. Why?

It would be foolish to deny there may be times when layoffs are unavoidable, but their ultimate effectiveness and validity must be questioned.

My personal experience, as both implementer and victim, suggests the decision and selection processes are often hasty and ill-conceived. When working in a large retail bank I witnessed the entire private banking function being discarded, just as break-even was reached after three years of investment. The staff had been hand-selected as the best in the company, but when challenged, my manager simply told me, “We don’t have time to be more selective!”

The commercial perspective is equally dubious, for the premise is to incur extraordinary costs now to reduce future costs, yet no break-even analysis is ever done. It also seems counter-intuitive when business is declining and profits need boosting, not reducing; nor does it make economic or commercial sense to effectively pay people not to do anything, as redundancy pay does. Furthermore, the decisions are usually made without any regard to the investment already made in the people being retrenched, or to the possibly vital contribution to any turnaround or other future efforts they could potentially make.

While the negative motivation and morale aspects are generally recognized, it is also questionable whether these factors are always properly assessed. Businesses operating in an ever more competitive global environment cannot afford to compound the problem of poor employee engagement – already running at unacceptable levels and continuing to deteriorate.

Furthermore, with the looming “war for talent” no business can afford to lose its recruiting edge, and such decisions do unquestionably damage the organization’s “employer brand.” This effect could actually be a double whammy, because research indicates that businesses that lay people off in a recession usually take longer to “snap back,” and they remain less competitive when the economy recovers.

Laying people off also has a wider economic impact, exacerbating the downturn, making it deeper and more long-lasting than it would otherwise be. It is the direct opposite to what Henry Ford proved in 1914, when he doubled his workers’ hourly rate and

restricted their standard shifts to 8 hours, thereby enabling them to become consumers of the automobiles they were building.

So clearly redundancy is counter-productive, for the organizations themselves and their long-term prospects, and for the wider community. It should only be used in dire circumstances, when it is the only possible way to survive in the short-term and may mean operating on a different basis/scale in the longer term. That it's so commonplace is thus cause for concern. Clearly, alternative solutions must be found.

I submit as one such solution a proposition that provides:

- a means of valuing people as assets;
- a method of creating employee ownership at virtually no cost to either the organization or the individual; and
- a new method of incentive remuneration that overcomes most of the inherent weaknesses of traditional performance related pay.

Valuing and treating people as assets will:

- change the mindset that continues to regard people solely as a cost;
- compel greater consideration of the value of what is proposed to be discarded;
- break the unthinking habit of using redundancy as a remedy for bad times;
- encourage use of existing capabilities to meet the challenges rather than dissipating them;
- strengthen the team ethos, build greater engagement and commitment, and foster greater collaboration to meet the challenges; and
- enable greater management focus on strategic issues.

Of course this change in approach will not remove the fundamental problems that cause layoffs, but it will reduce the likelihood, frequency and scale of redundancy as a remedy for business problems. It aligns better with management's primary responsibility to safeguard the organization's assets, and will enable managers and shareholders alike to make better assessments of the value of the human assets proposed to be jettisoned.

This perspective will also make management more accountable for these decisions and compel alternative solutions to be sought. It will also make those alternatives considerably easier to implement. Finally, it will provide a platform for ensuring the organization is better placed to snap back when the economy recovers.

It is therefore still necessary to look at some of the alternatives to redundancy. The most obvious, and one that may already be being more widely used than in the past, is salary sacrifice where, instead of an unfortunate few bearing the brunt of the cost-saving efforts, everyone across the organisation is required to take a pay cut.

There are many reasons why this is a better option, but even then it is necessary to be very careful about how it is done. Resentment can still be a problem and have a serious impact on morale. I have developed four basic methods of overcoming this problem; all will be easier to implement in an environment where people are treated as assets and where they are both seen – and they see themselves – as co-owners of the business

and are therefore more engaged and committed to doing whatever is best for the business.

Space prevents my writing more here, but for a fuller exposition of the concept click [here](#) or go to www.alternativestoredundancy.com.

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