

Insights and Outcomes



HRM INSIGHT 10.1 Reducing employment costs

This Extension Material will help you deal with the situation; the issues and requirements are similar but the strategy and actions may differ depending on what the group decides.

Questions

1. Outline your general strategy for achieving the required employment costs reduction: what should the strategy be?

In this case, if you have accepted the cuts of 20 per cent over a twelve-month period, you have probably failed to realize that unless drastic action is taken now the business will not be viable in three months. What this means is that the 20 per cent reduction in employment costs is probably the minimum that needs to be achieved over twelve months and that the reductions need to be frontloaded. Early, drastic action is needed. The most effective strategy is also one that can be implemented quickly and contribute maximum gain for minimum damage to the company's long-term prospects. The strategy should also limit the degree of conflict and division in its implementation—remember to focus on the residual impact of the actions you take when the business overcomes its problems.

2. Making realistic assumptions about wages and salaries, show in detail where the savings would come from.

Appropriate actions could be:

- stop all overtime;
- reduce indirect and support staff by 50 per cent but ensuring no key workers are lost;
- managers taking the lead in accepting a 20 per cent temporary;
- salary reduction;
- impose a 10 per cent wage/salary reduction for the next twelve months;
- create new levels of functional flexibility by changing job specifications—the remaining workforce has to maintain output capability, so that when demand improves, productivity and therefore competitiveness will increase significantly.

3. What actions would you take to ensure the cuts were perceived as fair?

The issue of fairness is very important because most people are prepared to accept changes which materially disadvantage them if they can accept the rationale behind them. It's not always about fairness: necessity has a role. On the other hand, even if the criteria of necessity are met—everyone knows what has to be done—the fairness test of what the reductions are and whether the pain is shared broadly remains to be met.

The key to achieving this is to be as open and transparent as possible—there is little point and no time for deceit and misrepresentation. Collective and individual meetings—not consultation—are needed to tell people what is happening, for what purpose, and who is affected. Promises to re-employ as many people who want to be can be offered but no hard guarantees should be offered—subject to economic conditions. Managers should be available to offer support and help to individuals who are temporary laid off, and frequent updates on progress should be provided.

4. What would you do to ensure motivation and productivity levels remained high?

One could argue that maintaining motivation and productivity will be achieved if management deliver what the answer to question 3 requires. But there are other actions that could help with these critical requirements:

- underemployed staff could be used to drive improvements in operating systems, quality, and innovation;
- management could use some of their time to review strategy and structures;
- planning for the future could run in parallel to the implementation of cutbacks;
- new training schemes could be implemented to develop capabilities.