Responsibility in a recession: Checklist for restructuring and downsizing

Background

Businesses are currently operating in extremely difficult circumstances facing intense pressure on cash flow as demand for many goods and services dries up, while banks are unable to provide short term funding relief. Redundancy and restructuring, including the closure of operations, are becoming a necessity as some organisations are forced to reduce overheads in order to survive.

The current economic crisis is unusual in the speed and severity of impact, but vital lessons learnt in previous downturns around issues of trust, reputation and organisational knowledge must not be forgotten. This briefing note offers ways to reduce headcount and restructure that minimise the negative impact to individuals and communities, and which ultimately pay dividends to the organisation involved.

These ideas and best practice should provide a timely reminder that organisations do have options over the way that they restructure and downsize, and making changes with care and respect for the individuals and communities involved is an investment that will both protect their business today, and place them in a better position for the future when economic conditions improve.

Good practice requires objectivity, lateral and innovative thinking and, above all, planned and considered communication. Important when times are good, communication is essential when times are bad. Key considerations are set out at the end of the briefing note in a useful checklist.

Why responsibility pays

The business benefits of responsibility are well articulated in terms of increased market share, loyalty, customer attraction and retention, employee engagement and productivity.

Responsible business practices deliver direct cost benefits and improved financial performance. A good reputation earned with customers, employees, local communities and voluntary sector groups when times are good, can be lost rapidly if a business loses focus on its values when times are bad. Critically, a hard fought reputation either with employees, customers or community stakeholders, once lost is extremely difficult to regain when the economic situation improves.

“If an organisation can do the right thing during a lay-off, it will reap the rewards for years to come with all of its stakeholders.”

David Gebler
Case study: Sabbaticals

Permanent tsb has offered staff up to €35,000 to take a 2-3 year career break/sabbatical. Another organisation is offering employees partly paid sabbaticals and/or a shorter working week.³

Case study: Re-negotiating pay & conditions with employees

JCB entered into negotiations with its staff where employees accepted a pay cut of £50 per week to try to avoid redundancies.⁴ Despite this approach, significant job losses have since occurred.⁵

The promotion of diversity and inclusion provides a great example. If unintentionally women, ethnic minorities, older or disabled employees are more adversely affected by a redundancy programme, when an employer has previously argued it makes business sense to have people with different backgrounds in the business, it can be impossible to regain the trust and commitment of these groups of employees. This also reduces remaining employees’ commitment to the policy in future as it calls into question the credibility of an employer’s business arguments to promote diversity. Organisations must be consistent. If it makes business sense in a time of economic growth, it must make even more sense when times are tough.

How an organisation behaves during economic recession is critical - irrespective of the choices it finally makes. Transparency, honesty, integrity, openness, keeping staff, suppliers and local communities fully informed and consulted, clearly explaining actions to customers and community representatives are all cornerstones of Corporate Responsibility and are more important today, than ever.

Alternatives to redundancy

Explore every possible alternative to redundancy as it does not always reduce costs and retaining skilled employees is essential for survival and speedy recovery. While redundancy cuts the salary bill it does not always result in savings; in a recent case shared by an employer a press officer was made redundant and the business then had to increase the amount it paid to its PR agency in order for someone else to provide press office facilities. Organisations often underestimate the costs of losing talent, breaking employee trust and motivation, increased stress, damage to their employer brand and the costs of recruiting when conditions improve.

Employers are currently exploring alternative options such as:

Redeployment
Placing employees with another employer on a temporary basis.

Temporary reduction of hours
Reducing hours for reduced pay following consultation with employees.

Part-time working/Job redesign
Extending part-time/flexible working opportunities (employees may embrace the option to improve their work-life balance).

Paid or part paid sabbaticals
Career breaks (can be attractive to people who have not taken time off for themselves since university or school). Offering continued contributions to employee pension funds can make this a more attractive offer to employees.

Contracted back services
Buying back former employees’ time for specific pieces of work but leaving them free to pursue other opportunities (requires an agreed change in contract or a consultancy arrangement).

Case studies: Contracted back services

Michelin asked its staff to take extended leave over Christmas 2008 to prevent a tyre stockpile situation escalating, thereby reducing costs.⁶ Honda⁷, Jaguar Land Rover⁸ and other manufacturers have recently taken similar steps.
Case Study: Indesit – Incentivising rapid transitions to alternative employment

Indesit Company (Turin, Italy) offered incentives to other local organisations to employ workers that it was forced to make redundant on an indefinite term contract basis. Such incentives were inversely proportional to employees' grades.

Case Study: General Motors – Discussing alternatives with the unions

Vauxhall parent company General Motors recently approached unions at their plant in Ellesmere Port. They explored whether staff would stay away from work for up to nine months between January and September 2009 on less than a third of their basic salaries. The 'sabbaticals' were seen as providing a means of ensuring that skilled staff were retained long term, but that this short term solution could address immediate production challenges.

Planning and implementing restructuring and downsizing with care and respect

When redundancy is the only viable option:

1. **Understand the legal requirements**
   Make sure from the outset that you are fully aware and understand your legal obligations. The following websites provide useful guidance, but it is also sensible to seek specialist advice:
   - Employment law: [www.berr.gov.uk](http://www.berr.gov.uk)
   - Advice on redundancy procedures across the UK: [www.businesslink.gov.uk](http://www.businesslink.gov.uk)
   - Specific advice on redundancy in Northern Ireland: [https://redundancyni.gov.uk](https://redundancyni.gov.uk)

2. **Go over and above the legal requirements**
   Early and ongoing communication is absolutely vital, as are appropriate redundancy packages, selection procedures of redundancy candidates and execution of any redundancy programme. Organisations can protect their reputation by investing in the ‘soft’ elements around redundancy (up-skilling, training, employee volunteering opportunities, job search support, mentoring). Refer to the checklist for further guidance.

Checklist for restructuring and downsizing

Ensure you...

- **Understand legal requirements** – See above for detail. Then consider where you can go over and above the legal requirements to protect long term business value.

- **Treat employees affected by downsizing with respect and dignity** – Both those exiting and those staying with the organisation; Policies are perceived to be fair to surviving as well as departing employees.

- **Involve and listen to colleagues and share information** – Most criticism around redundancy (and exit from a community) comes from poor communications and a perception that not all information is being shared. Trade unions, staff associations, employee networks etc should all be informed and involved.

Case Study: EDF Energy – Improving employees’ emotional resilience in periods of stress

Redundancy and downsizing induces great stress on both departing and remaining employees. EDF Energy operates an Employee Support Programme (ESP) which provides fast access treatment and advice for mental health difficulties. This programme has resulted in financial and morale benefits, and reduced the scale of ill health.
**Case Study: Boots – Up-skilling employees**

Using Skills for Life provision in a variety of contexts to support the business through a sustained period of change and restructuring.\(^{12}\)

- ‘Over’ communicate before, after and during a redundancy programme – Ensure top management is visible and openly supportive of changes. Wherever possible, ensure announcements of job losses are communicated internally before being released to the press. Recent examples of employees learning of cut-backs in the press have proven very bad for engagement and morale.

- Consider all stakeholders affected by downsizing – Not only employees will be affected. Suppliers, from local shops to transport providers, will all be affected. Advance planning, consultation and communication with all stakeholders – local community groups, politicians, government agencies and the media is good practice.

- Provide support for both departing and retained employees – Offering job search support, stress/wellbeing programmes, employee volunteering opportunities and developing skills for those leaving and left behind is critical both to increasing individual employability and wellbeing. It also ensures organisations are in a position to recover rapidly when the economy improves. Do not forget, redundancies also impact negatively on the morale of those employees that are left – often facing increased workloads and continued job insecurity.

- Support and work closely with managers – Managers require additional support, advice and guidance during any downsizing exercise – particularly where their own jobs may be at risk. They may also need support in considering the impact redundancy, including changes in terms and conditions, will have on an individual and the wider business.

- Maintain a diverse workforce – Both in a voluntary and compulsory redundancy situation there is a risk that different employee groups (women, older, disabled) are disproportionately affected – this must be carefully monitored.

- Manage the environmental and community impacts of any facility closures.

- Actively manage your talent pipeline – Wherever possible try to maintain contact with skilled and valuable staff – they may be needed in the future. This is a key lesson learned from the last recession. Stopping graduate schemes, not taking advantage of options like sabbaticals could leave employers with gaps in their talent pipeline that delays recovery.

**Case Study: Woolworths – Working with partners to redeploy staff**

Woolworths worked with Usdaw, Job Centre Plus and Nextsteps to ask companies purchasing Woolworths’ premises to take on outgoing Woolworth staff.\(^{13}\)
How BITC is supporting its members during the financial crisis
This briefing is only part of BITC’s response to the financial crisis and economic downturn:

- Briefings on:

- Convening employers for peer-to-peer learning, for example hosting a ‘Responsible downsizing breakfast’ in December ’08 and forthcoming workshops on ‘Diversity in a downturn’

- Business Action on Health can provide health and wellbeing toolkits, advice and support: [www.bitc.org.uk/health](http://www.bitc.org.uk/health)

- Support in employee volunteering programmes and training of employees as mentors and job coaches – useful development for those being put on reduced hours, sabbatical or those being made redundant.

Our work with businesses and communities has never been more important and we are working with members to focus existing programmes

Getting the scale of your approach right
The size of an organisation impacts on the number of people affected by redundancy programmes and the community impact, and therefore the scale of response required. In remote areas, where there may be only one major employer, closing down a facility will have a much greater and more negative impact, and means planning and investment is even more critical. But any employer – irrespective of size – can adopt a responsible approach. Values-based decision making applies whether you are cutting one job, or making thousands redundant and closing down an operation.

Further information and support
BITC and a range of organisations are working to provide businesses with flexible and responsive support during the economic downturn. These agencies can provide support in developing the skills and employability of remaining employees and those facing redundancy.

ACAS: [www.acas.org.uk](http://www.acas.org.uk)
CIPD: [www.cipd.co.uk](http://www.cipd.co.uk)
The Learning & Skills Council: [www.lsc.gov.uk](http://www.lsc.gov.uk)
Local regional ‘Train to Gain’ offices: [www.train2gain.gov.uk/In_your_Region](http://www.train2gain.gov.uk/In_your_Region)
References

1. Recent research by BITC/ IpsosMORI showed companies that successfully integrate responsible business practices improve their financial performance: A group of 33 long term participants in BITC’s CR Index outperformed the FTSE 350 on total shareholder return by between 3.2% and 7.7% per annum.


6. Staff told to take unpaid leave or sweep the floor, 14 November 2008, http://www.belfasttelegraph.co.uk/business/business-news/staff-told-to-take-unpaid-leave-or-sweep-the-floor-14063746.html


10. This also supports community investment activity

11. EDF’s Employee Support Programme (ESP) addresses workplace stress, BITC case study, January 2009

12. Norfolk County Services Skills for Life Award, BITC case study, http://www.bitc.org.uk/resources/case_studies/bootsbig_tick08.html


14. Organisations in Northern Ireland can contact EGSA (www.egsa.org.uk)

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