USING REDUNDANCY AND REDEPLOYMENT AS A RESPONSE TO INDUSTRY DECLINE

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Abstract

In the wake of severe competition and falling productivity organisations have resorted to redundancy as a solution to the problem. While it is seen as the last resort, organisations facing industry decline whether temporary or long term, should respond in ways that are appropriate to their internal and external circumstances. Organisations should identify circumstances and conditions which would lead them to choose the right personnel strategy to follow in response to industry decline.

INTRODUCTION

Redundancy has been always a painful consequence of an organisation's failure to withstand the effects of unfavourable economic conditions. Competition and falling productitivity have forced many organisation to introduce manning so as to improve productivity and cut costs. Redundancy has become not just as a symptom of failure, but a precursor to management attempts to improve the utilisation of the remaining workforce, for example by increased flexibility, so that the enterprise become both "leaner and fitter" (Turnbull, 1988)

Whilst this may be viewed as a positive outcome of reducing numbers, redundancy itself can be detrimental to individuals communities and the organisation may therefore seek alternative ways of manning through natural wastage, redeployment and using volunteers.

Redundancy is a situation in which management decides to reduce employees who are excessive in relation to the requirements of the organisation. It is a category of dismissal and by implication a form of forced termination whereby the employer takes the initiative.

Redeployment is being used as a term to cover all possible arrangements other than compulsory redundancy made to accomplish a regrouping or reduction in the work force of an organisation, including attrition through natural wastage. Voluntary redundancy might be seen as part of either strategy, depending on whether it is induced attrition or part of the means of selection. In drawing a distinction between the two approaches, it is recognised that organisations sometimes use both, using redeployment as a way of minimising redundancy.

The factors that prompt rationalisation and reduction especially those associated with industry decline will first be reviewed. This will be followed by discussions of the management of redundancy, the costs of personnel reduction and the use of different strategies in response to industry decline. Finally the two approaches of redundancy and redeployment are compared and conclusions drawn about the circumstances under which either may predominate.

INDUSTRY AND ORGANISATIONAL DECLINE

There are many factors which lead to decline in an industry and individual organisations. These include social changes, technological innovations, the stage of the product life cycle and competition.

Changes in society in terms of wants and expectations coupled with technological development can lead to major shifts in product demand which impact on whole industries. For example the substitution of plastic for metal in many products has led to growth in the petro-chemical industry but decline in steel production. New technology may also result in productivity improvements which reduce the number of workers involved and render the skills of thousands obsolete through manufacturing process changes.

According to Johnson and Scholes (1988), an industry's life cycle will start from development/ emergence stage, and move through growth and shake-out to maturity and decline. Industry in its decline stage is characterised by a buyer's drop-off in usage, the appearance of new substitute products, over capacity, falling prices and lower margins. Hofer (1991) pointed that an organisation facing industry decline will also suffer from a decline in efficiency, profitability, size and asset utilisation. In addition, it may be subject to a "time critically". This means that time is so critical that a quick operational response is necessary before a strategic response is made. Operational responses include asset reduction, revenue generation and cost cutting which frequently include reducing labour costs by shedding workers. A strategic turnaround response would usually require longer time to formulate and implement and may range from simple product differentiation to rejuvenation.

Further causes of redundancy are acquisitions and mergers which often lead to restructuring and an eventual labour surplus, (McCune, Beatty and Montagno, 1988). These may occur as a strategic response to industry decline, and/or competitive pressure, since the last decade merger and restructuring has been the trend in most developed countries and it is increasingly occurring in Africa and in Tanzania in particular.

The Tanzania Government decision to improve overall economic and business operational efficiency following poor performance by parastatal organisations has recently seen many of these parastatals being restructured liquidated and many others shedding workers. For those which have reduced its workers like National Bank of Commerce (NBC), Co-operative and Rural Development Bank (CRDB), Tanzania Harbours Authority (THA) and the Institute of Finance Management (IFM) just to mention a few have done so as a quick operational response to the pathetic situation facing them.

Apart from poor performance, declining organisational efficiency and productivity, these parastatals had other reasons for reducing its workforce. The CRDB for example, after computerising most of its services, the obvious outcome was to shed its workers.

When IFM realised that Cafeteria services consumed 30 per cent of its annual budget, it decided to contract out which resulted to being redundant all cafeteria attendants. All the same the problem of overstaffing was seen to be common in these organisations as redundancy affected workers of different categories from different departments. 333 workers were reduced from CRDB while 81 were affected from IFM.

MANAGING REDUNDANCY

Redundancy can be viewed as good or bad depending on the perspective taken. To the economist it is something that may contribute to economic good for some redundancy is inevitable if the economy is not to stagnate. Redundancy can pave the way towards improve efficiency through the elimination of overstaffing.

However, redundancy has social implications particularly where associated with the decline of whole industries in the wake of technological change. It can lead to loss of morale and efficiency in organisations and be a traumatic experience for individuals made redundant (McKenna, 1994: 606). This is in mind Armstrong (1991) suggests that redundancy is the saddest and often the most difficult problem concerning personnel managers who have to deal with it. In a survey of managers' approaches to announcing redundancy, respondents' preference was to give as much notice as possible and offer counselling back-up to individuals to counter the impact (Chell, 1985).

In the interview with the CRDB and IFM management, it shows that employees were notified before of the imminent redundancy. A number of complaints were received by CRDB management from the redundant employees pertaining to the criteria used for selection and type of payments. This however, indicates that the information was not thorough as important details were missing. And because many parastatal organisations lack employee counselling culture, many redundant workers left their jobs without knowing what to do next.

In the light of this, it is not surpassing that organisations seek alternatives to compulsory termination and that the redundancy process is seen as something to be properly planned and managed (Appelbaum, Simpson and Shapiro - 1987). Common practices are:-

- Human resources planning so that future reductions are anticipated and can be dealt with in a variety of ways;
- Using other methods to at least minimise redundancy;
- Careful planning of any redundancy exercise, in particular when and how individuals are informed;
- Consultation/communication with those affected and their representatives;
- Calling for volunteers;
- Enhanced payments;
- Providing counselling and out placement help.

COSTING OF REDUCTION

It is expected that management should examine alternatives to redundancy, and failure to do so carries various kinds of costs. An organisation may feel obliged to take into account impact on a community, or on certain kinds of workers and allow social considerations to temper a strictly economic view. The impact on the moral and future commitment of those not leaving are also important factors.

Based on their researches in governmental institutions in the united States, Greenhalgh and Mckersie (1980) identified some quantifiable costs related to redundancy. First, they identified the costs of administering a reduction in workforce. This cost is applicable not only to redundancy, but also to redeployment where normal attrition is encouraged and has to be managed. The organisation of a workforce reduction requires administrative effort. This may include benefits processing, exist interviews and related paper work. The more radical the reorganisation, the more effort is required.

The implication is that rechanneling of effort into administering a reduction in force can be considered lost productivity; that is, officials are taken away from their normal jobs of directly or indirectly contributing to the institutions service delivery.

Next, there are costs of voluntary leavers attributable to job insecurity. Based on extensive interviewing of union and management officials, Greenhalgh and Mckersie found that a certain number of people leave service because they perceive their jobs to be insecure. Since the more valuable workers leave first recruitment and training replacements are costly. Subsequently understaffing leads to overtime and lost services, and voluntary leavers result in disrupted teamwork and poor morale among workers who remain behind. As a result, several types of cost are incurred. Firstly, there is the direct cost of recruiting replacements. Secondly, there is the cost of lower total productivity as new employees learn the job, that is, learning-curve loss of productivity. Finally, there is the lost productivity of experienced workers reacting to the presence of the new employees.

Furthermore, lower commitment may increase the cost of lost productivity. When workers feel the threat of losing their jobs, they do not work as hard. They feel less committed to the organisation - which has been less committed to them - and will begin to exert only the effort required to avoid further jeopardising their jobs.

Other costs include severance pay, early retirement incentives and out placement costs. From their analysis, Greenhalgh and Meckesie concluded that a redundancy strategy is not a cost - effective as many people believe since immediate savings are usually outweighed by subsequent costs.

Both IFM and CRDB acknowledged losses they incurred as a result of redundant exercise. The most obvious losses are severance pay and the costs of administering a reduction in workforce in terms of time and rechannelling employees from doing their normal duties. With severance pay of course the more workers are made redundant the more money is given out. Time spent for preparing the exercise also differed from organisation to another. The IFM for example spent four months for the exercise. Costs that most of the organisations forget to count are those concerned with lost productivity when employees are working with tension waiting for their letters to leave. Other losses which these organisations did not identify as losses are those concerned with firm specific skills.

Some of the hidden costs associated with the voluntary or involuntary movement of employees between firms can be identified. He firm specific and firm non-specific employee skills.

Firm specific skills are acquired in a learning-by-doing fashion. Both technological experience and organisational experience unique to a firm qualified as firm-specific employee skills. There are many kind of firm-specific skills that can be acquired along with specific knowledge of the systems, values, culture and mission of the firm. Employees can also become acquitted with other staff members and learn their personalities, styles and expectations. Gradually they become aware of the political subtleties that are crucial to getting anything done. When employees with firm-specific skills leave an organisation either voluntarily or involuntarily, a loss of productive value occurs. When the organisation hires replacement employees, it must train them to acquire firm-specific skills; the firm incurs training costs that would have been unnecessary if the former employees had stayed.

RESPONSES TO INDUSTRY DECLINE

Various human resource strategies may be adopted to cope with different conditions of industry decline. A typology of organisational responses within which systematic approaches to the re-deployment of workforce are discerned. There are basically four strategies:- Survival, diverstitute/disinvestment, realignment and maintenance.

Survival strategies are implemented when industry decline is widespread, and supply and demand unbalances are soon expected to revolve themselves. The primary reason to avoid redundancy is that a firm can gear up quickly for a recovery. There are a number of short-term alternatives to redundancy in this situation. They include job sharing, leave of absence, encouraging to take holiday, eliminating overtime, short-time working and temporary lay-off. Pay cuts may also be suggested, and where pay is linked to profits or output, this may happen automatically.

These short-term alternatives to redundancy cannot however, be implemented in every organisation since as noted above, will depend on the nature and type of the problem being tackled. It is not easy though, in banking institution like CRDB to introduce job sharing or to suggest payments when wages are already very low without insighting workers to strike.

Divestiture/disinvestment strategies apply when decline is pervasive and expected to continue indefinitely, with no future seen for the industry or product lines. Both selling and abandonment are divestiture strategies. Divesting firms will sell a business intact when prospective buyer can be found. When industry decline is more gladual, firms do not necessarily have to divest affected businesses, they can disinvest instead. The human resource management consequence of this is a decision not to replace employees who voluntarily leave the organisation. Gradual disinvestment provides the opportunity for the gradual assimilation of some workers into parts of the business outside the declining industry.

While the intent of firms deploying divestiture or disinvestment strategies is to leave an industry, firms that adopt realignment strategies intend to stay put. Because demand appear to endure in some market niches, firms find it advantageous to realign themselves to serve the most desirable customer groups. Under this situation, there are both closing and opening of opportunities and thus intrafirm transfers of employees from unhealthy to healthy units may be possible. To facilitate this retraining of employees for the new opportunities may be necessary. This may be accompanied by natural wastage and early retirement. In some situations it makes sense to retain critical personnel either retiring or volunteering to resign as Part-Time consultants. By doing so the organisation is able to cut such costs as office space, fringe benefits etc.

Maintenance strategies can be used to tackle temporary and isolated industry decline if market demand is expected to be revitalised in the future. Market share will be difficult to recover once industry conditions improve if firms have cut back so much they have eaten the seeds. Accordingly, declining business units may use pay freezes and hiring freezes to hold the line on human resource costs until performance improves.

Further short term interventions for avoiding redundancy include: terminating any temporary employees, contract workers and work-time reductions. A strategic response to future uncertainty and the need for change which has received much attention recently particularly in developed countries is the concept of the flexible firm. In Atkinson's (1984) model numerical flexibility is achieved by separating the workforce into core and peripheral groups and making greater use of outsourcing. The model however has been criticised by (Pollert 1988) and can be seen as just an extension of the use of temporary and Part-Time workers, which is hardly new. Nevertheless there is reported interest in flexible patterns of employment (Atkinson and Meager 1986; Prowse 1990) and the model is a useful framework for bringing together a number of related ways of creating flexibility. In the flexible firm the core workers would be redeployed whilst the peripheral workers were being terminated. Whether this would always be the optimum arrangement is perhaps debatable.

REDUNDANCY OR REDEPLOY-MENT

Once management have made the decision to reduce the workforce, it must decide how best to achieve that goal. It is apparent that both redundancy and redemployment have advantages and limitations. Different methods generate different costs for employers and employees. Redundancy generates direct and indirect costs including severance payments and other employee support. These are likely to be higher than if wastage is achieved through attrition and redeployment. The long-term benefits may justify the cost, and Appelbaum et al (1987) quote examples of expected savings by major American companies.

Redundancy is a very visible way of cutting costs. Management may feel it demonstrates to some of their stockholders that they are taking firm action when faced with a crisis. When time is critical redundancy can be a quick acting response. In a severe crisis the choice may be redundancy or going out of business.

The limitations on redundancy are both social and economic. Redundancy has psychological impact on individuals, and moral considerations may lead managers to seek to avoid or mitigate the effects of compulsory termination. Once redundancy has occurred in a company, those who have lost their jobs may retain the fear that there will be further cuts in the future which may affect them. Job insecurity can affect productivity, stability and the willingness to accept change.

A converse argument is that fear will make the retained workforce more malleable. This possibility has to be weighed against the tendency for lower job security to require a trade-off in higher pay. The cost of the effects on company image to employees and outsides is difficult to estimate, but should be taken into account when planning the run-down-strategy (Greenhalgh and McKersie 1980).

A strategy of redeployment may be regarded as more conducive to retaining workforce commitment and flexibility. It is likely to be favoured by organisations that have had expelicity or implied policies of maintaining employment. Redeployment is potentially more collaborative, giving employees some say in their future.

Using natural wastage, transfers and voluntary leavers to reduce headcount is more socially acceptable and may minimise the costs arising from image damage and job insecurity. Wastage and transfers avoid redundancy payments, whilst voluntary redundancies are usually induced by enhanced payments and so carry higher direct costs.

Where the need for reducing numbers arises from or is accompanied by technological or other changes, it is often even more important to achieve this reduction by means that are acceptable to employees. Almost the first reaction to any proposed change is whether it will result in redundancy. If this is a perceived threat then it is natural that there will be resistance from the workforce. Guaranteeing employment to those who want it may lessen resistance and promote co-operation in introducing the change.

Nevertheless the means of avoiding compulsory redundancy are not without their problems. Job sharing does not suit all jobs. The organisation may not employ significant numbers of non-establishment personnel or use much overtime. Time and pay cut are likely to be resisted. A lengthily period of reduction may be more disrupting than a 'short sharp shock'. The expertise of employees in a declining area may not match the requirements in a growth area. Retraining may be impractical or unacceptably costly. The 'wrong" people may apply for voluntary redundancy. Feelings of job insecurity depend upon the composition of the workforce (Wood and Dey 1983: 106)

Arguments for redeployment also tend to assume the triggering crisis has an external cause. Frequently organisational decline after years of success and market dominance is due to complacency and management failure to monitor and adapt to changes in the marketplace. When there is an economic boom, inefficiency is hidden by the overall organisational performance. During recession, however, managerial incompetence becomes exposed. Under these circumstances, where problems stem from the internal rather than the external factors, redeployment is less likely to be effective.

Since both redundancy and redeployment have their strengths and their limitations, a contingency approach is called for whereby each situation is analysed to determine which strategy is more appropriate. Greenhalgh, Lawrence and Sutton (1988) identified two major sets of determinants of this issue. They are the perceived features and the context of workforce supply.

The important features of workforce supply are magnitude, duration and predictability. If the perceived magnitude of the oversupply of labour is high the large number of surplus employees may be too overwhelming for redeployment strategies. Wastage and transfer are likely to take time to deliver the required reduction and may not do so in an economically feasible period. However if the duration of oversupply is forecast to be short, managers may use redeployment and cessation of recruitment and carry the costs of surplus employees to avoid the employee relations costs of redundancy. This is particularly likely where skills are difficult to replace once lost. Predictability of oversupply affects the likelihood of being able to plan and take long term measures. If the oversupply is unpredictable in magnitude or duration, managers are more likely to choose more severe workforce reduction strategies.

Contextual variables can explain why different organisations respond so diversely to similar levels of workforce oversupply. These variables are aggregate organisational characteristics, global organisational characteristics and environmental characteristics. Aggregate organisational characteristics include the level of skill, external demand for skills and mix of generic and organisation-specific skills of the workforce. If employees are unskilled or their skills are readily replaceable form the external market, redundancy is an extractive option. It will also be necessary when labour markets are sluggish since wastage and volunteer strategies need the pull of available external opportunities. The possession of organisation-specific skills which need long development time points to redeployment and retraining people even when this is uneconomic.

Global organisational characteristics include the structure, level of slack resources and history and value system of the organisation. The structure of the firm frames the opportunities and constraints within which managerial strategy is enacted. Diversified operations may provide more possibilities of transfer as run-down in one sector is balanced by growth in another. On the other hand greatly differentiated operations may hinder transfer because of training cost. The lower the level of slack resources available to managers, the greater will be their use of severe workforce reduction strategies. The declining organisation cannot afford the cost of the more drawn out redeployment approach.

If the organisation's values and culture include a commitment to stability of employment, compulsory redundancy will be put off as long as possible. If this is coupled with managerial inexperience of oversupply, the managers may believe the problem is a temporarily blip, and defer is natural that there will be resistance from the workforce. Guaranteeing employment to those who want it may lessen resistance and promote co-operation in introducing the change.

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