

# **Why Redundancy is Bad for Business...**

## ***Even in a Downturn***



**5 reasons why redundancy is best avoided,  
and how you can minimise its impact if you  
have no option.**

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# Why Redundancy is Bad for Business, *Even* in a Downturn

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**5 reasons why redundancy is best avoided, with a guide to what you can do to minimise its impact if you have no option.**

This guide will show you:

- **The 5 factors that you cannot afford to under-estimate when you are looking to reduce headcount**
- **How this will help you better fulfil your primary responsibility to look after the organisation's assets and position the business for a better future**
- **That there are viable alternatives to redundancy that will not only ensure that you come through the tough times, but that you emerge stronger as a result**

## Explore these 5 powerful questions before you lay off any of your people...

In challenging economic times your need to deliver more value with less cost very often makes reducing headcount an apparently unavoidable option. This seems inevitable because employee costs, invariably, are a large proportion of your expenditure and so have a significant impact on your P&L.

But whilst you may consider layoffs quite appropriate and even unavoidable, it may be the worst decision you can make. After all people are your *key asset* to your competitiveness. You have made an enormous investment in your people and the new approaches and policies aimed at building an 'employer brand' to keep them loyal and engaged. Do you really want - or need - now to put all this at risk.

I have spent many years studying employee motivation and morale and seen first hand how damaging redundancy can be, and how it undermines years of investment and effort. In this short starter guide, you'll look at issues that are not properly addressed when implementing redundancy programmes, and their implications. You will see that there are alternatives and you will discover new ways to make these alternatives more viable.

This starter guide helps you ensure that, if you have to make such decisions, you will at least have covered every aspect.

**Even if it is too late, and you have already been forced to make these uncomfortable decisions, it will help you identify new measures to rebuild your people's confidence and ensure you are better equipped to face the future. And that you do not have to repeat the medicine.**

## 1. Ensure you are not rushed into a decision

You face the danger, when confronted with plunging sales and gloom and doom newspaper reports, of thinking that layoffs are essential if you are to have any chance of ensuring your business survives. This is particularly likely after the longest boom period in history. So, while it may seem obvious, you need to proceed with extreme caution.

Personal experience of redundancy, as both collaborator and victim, has convinced me that both the initial decision and the selection processes that follow are too hasty and not well thought through. Even if redundancy *is* 100% unavoidable, you need to be sure that you are dispensing with the right people, and to put measures in place to ensure you engage those who are left behind. If you don't you are very likely to find that you require additional dosages in future, and that is the worst thing that can happen, because it will completely destroy whatever credibility you have left and any remaining trust or confidence your people may have.

Remember, business is like a rubber band. It stretches and contracts according to the economic climate. Consequently you need to position yourself to manage through both boom and bust periods, for the likelihood is that you will need some of these people in your next stretch period. And you will certainly need to have your people fully engaged if you want to ensure that you are well-placed to compete effectively when the good times do return. Ask yourself:

**What does this person do?**

**Who is going to do it if they are no longer around to do it?**

**Can these activities be dispensed with entirely? If so, what will the consequences be?**

**What will happen when the good times return?**

## 2. Challenge your commercial logic

The commercial justification for redundancy is also often dubious. Layoffs are based on the premise of you incurring extraordinary costs now to reduce your future costs. This seems counter-intuitive when business is declining and is dubious when profits need boosting not reducing. It simply does not make economic or commercial sense for you to effectively pay your people not to do anything.

No organisation that I have encountered has ever conducted any break-even analysis to tell them at what point the additional costs incurred through the redundancy programme will start being recovered. At the very least you should be able to pinpoint this 'return on investment'.

Even this may not be enough. A person's value presumably exceeds their cost or else you would not employ them. So what value are you going to lose, and where is the break-even point when you factor that into the equation?

The people you are proposing to make redundant have invested part of their lives in your business. Equally you have invested time, effort and money into equipping them to do their work better. To ensure that your decisions are sound and can stack up before any independent assessor you need to ask yourself such questions as:

**How much have we invested in this person? Can we really afford to simply scrap that investment?**

**Can you not use them more effectively to meet the new challenges rather than pay them to do nothing?**

**What can we do to increase their value?**

### **3. Consider the long-term implications of your decision**

A further long-term effect that you need to consider is the impact on motivation and morale. This is often recognised, but seldom properly assessed. In a competitive global environment you cannot afford to contribute to deteriorating employee engagement and undermine your competitiveness further. Layoffs also mean losing your recruiting edge and double this risk. Research clearly indicates that businesses that layoff people take longer to “snap back” when the economy recovers. The looming “war for talent” also increases this risk.

If you have a good relationship with your people and are seen as a good employer brand, you need to think very hard before taking action that jeopardises it. As Warren Buffet once said, *“It takes 20 years to build a reputation and 5 minutes to ruin it.”*

Redundancy tends to be a short-term solution to a short-term problem. Everything is driven by a sense of urgency and the need for immediate action. The last two points reinforce that. This short term fixation, however, is really dangerous as it also takes no account of the difference people can make. Their talents and skills could make a vital contribution to any turnaround or future efforts and you ignore this at your peril.

Be careful that your rush to lay off people is not tantamount to an admission that you have no better ideas as to how to proactively meet the changed situation. Remember that rubber band analogy and ask yourself such questions as:

**What skills do these people have outside of their current roles?**

**Can we use any of these skills now?**

**Will we need these skills in the future?**

### **4. Consider the effect on your remaining people**

You might think this is blindingly obvious, but you need to beware falling into the trap of thinking this is just something you will have to 'manage' your way through. The fact is, this is another area where your decision has a long-term impact, and while this is usually recognised, the effect on motivation and morale is often paid lip service.

Redundancies breed fear and inevitably have an adverse effect on the way the people who remain perform. This requires careful and considerate planning, particularly if you have invested time and effort into building a good relationship with your people and a good 'employer brand.' Warren Buffet's words are equally applicable to employee engagement initiatives. Any redundancy decision will immediately undo all your work to engage your employees. Once you have done it once your people will know you are capable of doing it again and will be sceptical of any assurances you might give - particularly as such initiatives are often repeated later.

This can create additional risks for any business operating in a competitive global economy and thus you need to ask yourself:

**What will the effective be on our competitiveness?**

**What will the effect be on our employer brand?**

**What can we do to rebuild a team spirit that will allow us to see off the bad times and position ourselves for the future?**

Research clearly indicates that businesses that layoff people take longer to “snap back” when the economy recovers. The looming “war for talent” also increases this risk. So, if you have a good relationship with your people and are seen as a good employer brand, you need to think very hard before taking action that jeopardises it.

## **5. Minimise the wider economic impact**

Looking outside the business, layoffs clearly have a wider economic impact. They exacerbate any downturn, and make it deeper and more long-lasting than it would otherwise be. On a grand scale they could be said to be economic selfishness. While I appreciate you are not inclined to look upon it in this light, perhaps there are some questions you should as yourself, such as:

**What will the effect be on our investors?**

**What will the effect be on our suppliers?**

**What will the effect be on the community?**

Could a redundancy exercise make your external stakeholders jittery or negatively impact your business or its reputation? In that case you need to look very hard at possible alternatives.

## What do you next?

If you do conduct a thorough analysis along the lines of these 5 criteria you will likely end up asking yourself a number of further questions.

### **Why am I even considering this course of action?**

### **What are my alternatives?**

### **Do I really need to persist with this course of action?**

Thorough analysis in each of the 5 areas makes it clear that layoffs are counter-productive. They are in fact the epitome of short-term thinking: a reflex decision, made more out of habit than economic or commercial wisdom. As I said earlier, research shows that they are actually damaging in the long-run. Since management's primary role is to safeguard the business and look after a company's assets, it could thus be argued that any executive who embarks on a redundancy programme is not actually acting in the best interests of the company.

I bet that gives you cause to sit up and think! No doubt you feel it is one of the most stressful and unpleasant aspects of your job and obviously one you will avoid if you possibly can. Well, here you are, I am now giving you a 'get out clause'!

That is not to say redundancy is never an option. There may well be times in which it *is* the only way to secure your company's survival. However, before you can make any decision you need to know:

1. What your alternatives are?
2. That you have explored all these options before you reach any final conclusion.

Certainly if you have been investing heavily in initiatives to engage your employees and improve the productivity of your people, redundancy will undermine all your good work; indeed, everything you have been struggling to achieve and make it even more difficult in future. It therefore needs to be used only as a means of last resort, and, if it is unavoidable you need to have something in place to:

- Minimise its impact; and
- Make sure you don't have to resort to it again.

**Zealise has developed a ground-breaking new framework to help you reduce the likelihood of redundancy as an option, whilst also achieving greater employee engagement and a more secure competitive position.**

**It's practical, relatively easy to implement and, best of all, extremely cost-effective.**

**It's also low risk.**

**It allows you to:**

- Properly assess the consequences of proposed redundancy initiatives
- Engage your people, getting them to act as business owners, prompting greater teamwork and cooperation
- Consider alternatives to redundancy and implement them more effectively.

## People as Assets

Fundamental to this solution is the concept that people are assets.

If you think about it, the whole drive to reduce headcount is propelled by thinking that regards people as a cost. As we saw earlier, you are thinking that you have to reduce headcount because you have to reduce costs. Your whole mindset inevitably changes when you approach the challenge with the mindset that people are assets.

This is because, as a manager, you are required to safeguard the company's assets. It is why I was able to claim that making people redundant might be contrary to that basic principle. A downturn in the economy doesn't mean you dispose of a proportion of your plant and equipment, or any of your computers or operational systems. So why should it be any different with people? After all, in the Knowledge Age, people are your primary asset and what ultimately provide your competitive edge.

Treating people as assets offers you a solution that:

- Aligns better with your primary responsibility to safeguard your company's assets.
- Enables you and shareholders alike to better assess the value of the people proposed to be jettisoned, and makes you more accountable for such decisions.
- Compels you to search for alternative solutions **and** makes these considerably easier to implement, facilitating significant, step-change performance improvement in non-recessionary times.

## Alternatives to Redundancy

Treating people as assets does not provide an alternative to redundancy itself. It does, however, make it considerably easier to introduce any of the other 5 solutions to redundancy that are available.

For example, one of most obvious, and one that may already be being more widely used than in the past, is salary sacrifice. Here, instead of an unfortunate few bearing the brunt of cost-saving efforts, everyone across the organisation is required to take a pay cut. There are ten reasons why this is a better option, but you still need to approach it very carefully. This is proved by the failure of the motor industry bailout in the US because of the inability to win the support of the trade unions for a pay cut.

Even when a pay cut is agreed, resentment can still be a problem and impact on morale. There are four basic methods to overcome this; along with a further five rules that you need to follow in all cases. All are easier – perhaps only possible – to implement in an environment where people are valued as assets.

### You can reduce the prospect of redundancy in just 3 easy steps:

1. **Value people just as you would any other asset.** This will give you:
  - a. A solid platform for evaluating the consequences of any redundancy proposals.
  - b. A mechanism to create greater employee engagement and build/rebuild trust.
2. **Evaluate the effects of redundancy on that basis.** This new approach will allow you to assess the impact of any proposed redundancy on a far more empirical and structured basis than in the past, according to the 5 criteria identified above.
3. **Create viable alternatives and 'sell' them to your people.** People who are treated as assets will be more likely to see themselves as 'belonging' to the organisation and thus more amenable to some of the alternatives schemes which consequently become more viable and easier to promote.

We've spent years researching and developing this new framework for business. Clearly it has far more wide-reaching applications than just averting redundancy. However, if you are facing introducing redundancy initiatives or have already implemented them we would encourage you to learn more now and see how it would work in your company.

### 'Alternatives to Redundancy' Guide

This expands on the contents of this 'starter' guide and gives you a fuller insight into the 5 evaluation criteria. It also explains the method of valuing people as assets in more detail before going on to identify the 5 alternatives to redundancy, and explaining why they will be easier to introduce if you adopt our methodology.

You can purchase the complete framework by clicking [here](#) or by linking directly to our website at <http://www.zealise.com/prods/pc1.html>

### 'Zealise Integrity Programme'

Alternatively if you are already convinced and interested in learning more about the Zealise Integrity Programme and how valuing your people and the new ownership

model will help you transform your business and - more importantly - its performance, as well as your own, then simply contact us now.

## What do you do now?

The world is crying out for fresh ideas and with this approach you have the opportunity to adopt a powerful new one that offers you a unique capability to put your business on a new footing that will help you build a future of greater potential. You really cannot afford not to at least explore the enormous benefits that this solution offers your business, which we are confident will add *at least* 20% to your bottom line.

Simply [download the complete 'Alternatives to Redundancy' framework](#) now. Click on the link or otherwise simply go to [www.zealise.com/prods/pc1.html](http://www.zealise.com/prods/pc1.html)

Alternatively, if you're as excited by this new solution as we are, and want to go straight to the next step and are willing to be an early adopter let explore how we could work together to:

1. Carry out the initial valuation of your people.
2. Create the rules appropriate to your business for reflecting changes in value. (Remember, unlike most other assets, people's value generally increases more than decreases over time.)
3. Formulate the internal policies you need before you start this new programme.
4. Establish the procedures you need to put in place to ensure that changes in value are properly identified and recorded
5. Create the appropriate reports to optimise your new, powerful management capability.

We're also looking to build case studies with organisations that go through this process with us. To that end we are looking offer you special rates and benefits as a 'thank you'. You can also make the most of the publicity that goes hand-in-hand with being a trailblazer and visionary in the way you manage your people and your performance. So do contact us, without delay.

## CONTACT US

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## Bay Jordan

Bay Jordan first outlined his thoughts about the need to pay more than mere lip-service to the statement "Our people are our greatest asset" in his book *"Lean Organisations Need FAT People."* Since then he has continued to work with those ideas and has developed the practical formula to deliver. With 'Why Redundancy is Bad for Business' he builds further on his own career success in getting the best from people, and offers you the means to redress the failure to fully recognise the human element in managing change that has been a primary cause of increasing employee disengagement. He recognises that sustained competitiveness is impossible with disengaged people. That's why he has developed this exciting new approach, that reduces the dramatic consequences of redundancy, as well as offering no-cost employee ownership that drastically reduces the amount of futile management time spent dealing with people issues that you could never realistically expect to solve!



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