Think before you fire

The most popular cost-cutting measure in a recession is to shed staff. It's highly visible and the savings look impressive but experience shows that companies continue doing it right up to the end of a downturn and even beyond. However, is it a good long term decision. Before making employees redundant consider some of the drawbacks:

1. Your company will damage its name as a good employer

Many companies now state an explicit goal to be an "employer of choice" in their industry or local economy. That's a worthy goal in an economy where the war for talent is a long term fact of life, even if it has been interrupted by the recession. Ask yourself how badly layoffs could damage your company's ability to attract and retain top talent ? A good name takes years to build up, but one round of redundancies could destroy it.

2. Your leadership supply line will suffer in the future

Layoffs greatly increase the chances that you're firing a future company leader. You may never know who, but the effect is still real. The banking industry and the electric utility industry both went through severe cutbacks in the 1980s, and executives in both industries have repeatedly confessed to paying a heavy price 20 years later, when they needed experienced, knowledgeable leaders to succeed the generation that was retiring and found only a broad empty space in the ranks.

3. You'll face the costs and delays of hiring

Recruiting and training new employees when the economy improves is expensive. That day will come, and when it does, companies that have held on to their workers will be able to respond more quickly and confidently than competitors who need to find new employees and get them up to speed. The recruitment process is also time consuming with valuable management time and focus being diverted from developing the business post recession, to sifting through CV's and holding endless interviews.

4. Redundancy can be slow

There is a whole raft of personnel legislation that needs to be considered when making redundancy decisions. There are timescales and periods required for consultation in certain circumstances and you should seek expert professional personnel advice from the outset. Get this part wrong and it can leave the business open to legal challenges for unfair dismissal amongst other claims. However, as directors of the business you have the legal right to take whatever actions are in the best long term interests of the company, so don't be put off doing it, just do it the correct way.

5. Your company will lose productivity

Before, during, and after the layoffs workforce productivity will fall. Within minutes of redundancies being planned or even considered, the rumour mill will be spinning furiously. From that moment on, productivity will plummet as employees trade information, prepare CVs, and spend much more time thinking about themselves than about their work. The effects will last long past the layoffs and may hold back the Company's recovery when the trading market improves.

6. Remaining staff may suffer

Workers who remain after the redundancies often make more medical claims, especially for mental health, or may take an increased number of sick days. Studies have found that managers are twice as likely to suffer a heart attack in the week after they fire someone. The staff that are left often feel they have to work much harder to "take up the slack" of those have been made redundant. This can lead to an increase in poor timekeeping and again an increase in sick days taken off.

REMEMBER!!

Put all these factors together and you start to realise why redundancies may be a company's worst option in responding to a recession. Traditionally it's the choice many managers consider first, but if that manager is you, understand the issues covered here and ensure that it really is the best decision for the business both in the short and long term.