Impact of Redundancy on Organizational Performance

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Abstract:
The research sought to assess the impact of redundancy on organizational performance at Might Stores. The research was carried in the form of a case study, in which a sample of 44 employees from a population of 60 employees was used. Random and purposive sampling procedure was employed in selecting elements from 5 managers and 55 general employees. Questionnaires and interviews were used in triangulation to collect data on the sample. After analyzing the collected data, the study unearthed that redundancy negatively affects firm performance and as such organizations must consider alternatives to redundancy say manpower planning, redeployment, loaning out and pay cuts.

Keywords: Organizational performance, redundancy and survivor syndrome.

1. Introduction
The concept of redundancy has been the centre of many scholarly studies and has proved to be a critical strategy of reducing costs and enhancing organizational success. Globalization, market deregulations, advancement in technological and changes in customer tastes are forcing firms to change strategies and concentrate on effectiveness and efficiency for growth and survival. Lashley (2001) states that the constant repositioning of organizations is of utmost importance in an economy that is staggering towards stabilization and firms have to choose either to change or remain constant and perish. Redundancy becomes inevitable so as to address the issue of labour costs and hedge organisation against collapse. In essence, a company decides to go through the redundancy process so as to reduce labour costs which in turn enhances the financial position of an organization. It is against this background that a research be conducted to ascertain whether it’s a reality or a myth that redundancy initiative goes a long way in reducing costs.

2. Background
The concept of redundancy is not new in the field of business management, it has generated a lot of debate among researchers and academics. Rudandancy is being adopted by many firms across the globe, the reasons being to reduce costs and enhance organizational performance (CIPD 2008). Statistics from the Irish Central Statistics Office (2008) showed dramatic economic downturn and this forced Irish firm’s to embarked on redundancy as a survival strategy to curb their challenges. A survey conducted by Labour Force (1998) in Britain proved that the amount of redundancies among British firm in creased with the aim of reducing costs and enhancing organizational efficiency and effectiveness. The study was conducted after an outcry in firm’s performance and high labour costs among firms in Britain in 1997. Another study by Bureau of Labor Statistics (2004) in Australia, Canada, England, Japan, Taiwan and the United States of America revealed that in a bid to reduce cost and enhance organizational performance, majority of employers in these countries embarked on redundancy. Another study by IRS (1995) in UK found that eight out of ten UK companies had made employees redundant and just over 50% were likely to be laid off a year after with the aim of enhancing organizational effective and efficiency. In support, a survey by KPMG (2008) among UK firms revealed that one in four employers embarked on redundancy to remain viable and maintain profitability. Companies operating in Zimbabwe were not spared from the challenges of increased cost and poor organisational performance. Sutcliffe (2013) argues that, Zimbabwe has long been considered a country in crisis. In support, Matombo and Sachikonye (2010) revealed that Human Development Index stands at 173 out of 187 which is a sign of crisis. Zimbabwe’s entrenched economic crisis saw inflation peak at 231 million per cent in 2008 and unemployment rate of 94%. The Financial Gazette of 12 February 2015 has it that, thousands of people working in Zimbabwe were made redundant as companies abruptly close shops due to economic, social, political and technological factors. Might stores investment cannot be left out as a company which adopted redundancy strategy in a bid to reduce cost and enhance organizational performance. However this initiative did little to save Might stores from its operational challenges. Might stores strategic meeting minutes of 20/6/2015 revealed that the firm’s performance is being jeopardised because of high wage bill, absenteeism and high labour turnover. It is against this background that this research seeks to assess the impact of redundancy on organisational performance.
3. Related Literature

This research is guided by Greenberg’s (1987) organizational justice theory. Organizational justice theory shows how an employee judges the behaviour of the organization and the employee's resulting attitude and behavior. Satpute and Lieberman (2008) define justice as an action or decision which is morally right. They further state that an individual’s perceptions of these decisions as fair or unfair can influence the individual’s subsequent attitudes and behaviors. Additionally, they postulate that fairness is often of central interest to organizations because the implications of perceptions of injustice can impact job attitudes and behaviors at work.

Research conducted by Greenberg (1987) revealed that employee job performance increase or decrease in relation perception of justice. Greenberg (1987) suggests that there are three main forms of organizational justice; distributive, procedural and interactional. Adams (1965) defines distributive justice as fairness associated with decision outcomes and distribution of resources. He further states that perceptions of distributive justice can be fostered when outcomes are perceived to be equally applied. Leventhal (1980) defines procedural justice as the fairness of the processes that lead to outcomes. When individuals feel that they have a voice in the process or that the process involves characteristics such as consistency, accuracy, ethicality, and lack of bias then procedural justice is enhanced (Leventhal, 1980). Lastly, Bies and Moag (1986) simply define interactional justice as the treatment that an individual receives as decisions are made. In addition, a validation study by Colquitt (2001) suggests that interactional justice has two components that is interpersonal and informational justice. He defines interpersonal justice as perceptions of respect and propriety in one’s treatment and informational justice as the adequacy of the explanations given in terms of their timeliness, specificity, and truthfulness. The theory suggests that there is a potential link between the way in which redundancies are managed and justice theory. The theory allows the current study to understand how and why individuals perceive the redundancy process and its implications to their own work situation and organizational performance.

3.1. Redundancy

Martin (1982) defines redundancy as a process of dismissing someone because he/she can no longer be usefully employed. Cushway (2005) simply defines redundancy as the termination of employment that is caused by inadequate level of work. He further state that redundancy occurs when there is surplus of labour.

3.1.1. Types of Redundancy

Martin (1982) states that there are two major types redundancy namely voluntary and compulsory redundancy.

3.1.2. Voluntary Redundancy

DeWitt et al (1998) defines voluntary redundancy as a program which allows eligible employees to choose whether or not to participate in redundancy. Additionally, Fells (1958) defines voluntary redundancy as a process where employees opt freely to be made redundant. Fells (1958) further states companies may lose talented employees and remain with general employees through voluntary redundancy schemes.

3.1.3. Compulsory Redundancy

Macken, Grady and Sappideen (1997) define compulsory redundancy as a process where managers select employees for job loss regardless of their own wishes. Seligman (1975) posits that compulsory redundancy creates a feeling of helplessness over job loss and as such the person believes that their job-search efforts will not help them to gain reemployment.

3.1.4. Reasons for Redundancy

Applelbaum (1997) posits that there are various reasons that cause organization to embark on redundancy namely costs, downturn, technology acquisitions and mergers.

3.2. Costs Reduction

CIPD (2008) postulate that firms opt for redundancy to cut costs and remain viable in tough times. Contrary, Purcell (1998) posits that redundancy is a significant cost to most organisations and can thus prove to be a false economy. A study by Ipsos Mori (2008) found that one in four employers had contingency plans in place to make redundancies with the aim of reducing its costs and enhance organisational performance.

3.3. Bumping

Employment Rights Act of Ireland 1996 states that bumping occurs when an employee (‘employee A’) loses their position in the business and is moved to another employee's job (‘employee B’), thus displacing the less retainable employee and causing the dismissal of employee B. In these circumstances, the dismissal of employee B is a redundancy and they will be entitled to a redundancy payment so long as they have worked for the employer for 2 continuous years.
3.4. Closure of Business
Redundancy can occur due to the closure of a business. This is the case whether the closure is permanent or temporary. In addition, the Employment Rights Act (1996) states that redundancy can occur if the employer ceases to carry on with the business where the employee was employed. It further states that redundancy also occur when the needs of the business for employees to carry out work of a particular kind have ceased or diminished.

3.5. Technology
Nicholson and West (1988) state that technology act as a catalyst to command firm’s destiny amid rising levels of uncertainty. Experts have revealed that around 50% of occupations existing today will be completely redundant by 2025 due to the rise of artificial intelligence and its ability to transform firms. Rifkin (1999) posits that technology and increasing capital intensity reduced the need for labour in every manufacturing sector and by end of 2020 less than 2% of the entire global workforce will be engaged in the factory work. Consulting organization CBRE (2014) postulate that rapid advances in technology have caused potential threats to many jobs. They further state that employee’s livelihoods are at stake as revolutionary shift take its course. The Committee for Economic Development of Australia (CEDA) report highlighted that approximately five million jobs face a high probability of being replaced in the next two decades, while a further 18.4 per cent of the workforce had a medium probability of their jobs being eliminated due to industrial revolution being driven by technology.

3.6. Economic Downturn
Blazas (1997) postulates that due to the economic downturn redundancy seems to have increased. George and Jones (2002) state that global competition and changes in the environment are cause of concern and as such firms have to adjust. For the sake of growth and survival firms have to continuously adapt and change to new forms of organizations that are flexible and constantly creating new innovations (Bloise, Cook, Hunsakar, 2003).

3.7. Transfer of Business
Employment Law Centre (2009) posits that where there is a transfer of business to a new employer, the new employer can choose not to recognize the employee’s service with the first employer and hence the need for redundancy. They further state that, if the new employer recognizes the employee's service with the first employer, the employee is not entitled to redundancy pay from their first employer, as the employee is being offered an adequate alternative role with the new employer.

3.8. Alternatives to Redundancy
Oparanma (2010) states that redundancies are usually costly for employers and employees alike. He further states that employers risklosing their investments when employees are laid-off and they incur additional costs in the form of redundancy benefits and severance pay. This background prompted Collins (1993) to argue that redundancy is a painful situation for both employers and employees and is a sign of failure. A research by Bain research (2003) in year-long analysis of layoffs of S&P500 firms, found that firms with small or no layoffs, saw 9% rise in share price over three years, but firms that laid off 3-10% of staff saw share price rise by average of less than 1% in first six months over three years, they also unearth that firms with layoffs of 10%+ saw share price plunge by average of 38%. In order to hedge against this, organizations are forced to look for creative alternatives approaches which minimize or even avoid redundancies.

3.9. Manpower Planning
Myers (1976) states that when business downturns seem imminent, managers usually opt for redundancy as a lasting solution but a strategic manpower planning could very well prevent over hiring. According to Nwachukwu (2005) manpower planning is to anticipate and provide for the manpower needs of the entire organization. Oparanma (2010) states that manpower forecasting helps in the filling of job vacancies and controlling employees surpluses and this will reduce redundancies.

3.10. Redeployment
Cole (1997) defines redeployment as an offer to be employed elsewhere in the organization either at the same or similar job or on a different job. Policy and Resources Committee (1998) revealed that redeployment is undertaken in order to avoid dismissal due to redundancy. They state that when an employee refuses an offer of suitable alternative employment, redundancy pay will be withheld. Employees, who accept redeployment to a post with a lower grade receive their existing salary for a period of twelve months from the date the redeployment starts (Policy and Resources Committee 1998). Thereafter, their salary will be adjusted to the maximum of the new grade/range.

3.11. Re-Training Opportunities
Oparanma (2010) states that the galloping pace of information technologies is a harbinger of profound uncertainty and one cannot be sure that one’s lifetime accumulated skills will be needed tomorrow. Nicholson and West (1988) further state that employees must update their skills and knowledge to retain their status in organizational systems and the labour market. A research by Bain research (2003) revealed that as a creative alternative to redundancy, Intel spent £1,500 per employee on retraining those under job threat. The Bain research (2003) also found that Lincoln Electric took 58 factory workers, 14 clerical workers to retrain...
as salespeople and in four years the approach helped firm net more than $10min sales before going back to old jobs Nwachukwu (2000) posits that organizations should ensure that employees without the necessary skills are helped to acquire them, while those who do are helped to update them.

3.12. Pay-Cuts/Reduced Hours/Work Sharing
Heneman et al (1981) propound that Pay-cuts or alternatively, delays of scheduled pay increases reduce labor costs. Griffin and Ebert (1991) posit that work sharing programme is a modified work schedule which increases employees’ job satisfaction by allowing two people to share one job thereby reducing the chances of redundancy. Rather than make people redundant, use of shift workers or by reducing hours work at a reduced pay may be desirable (Oparanma 2010).

3.13. Loan-Outs and New Business
An alternative effort against redundancy implemented by some organizations includes the loan-out of surplus personnel across departments or to outside organizations (Myers 1976). This measure is more feasible in an industry restricted slump than in a general economic recession. Some organizations could avoid redundancy exercises by diversifying into new product lines (Rigby 2002). For example, a large tobacco company in Canada avoided retrenchment by diversifying into new product lines that would absorb the slack in the tobacco business caused by new competitors and reduction in tobacco consumption.

3.14. Impact of Redundancy on Organizational Performance
Bain research (200) revealed that nearly half of UK organizations have made redundancies and the move proved to be the most damaging kind of workplace change as it undermines morale, confidence, trust and comfort of staff. The research further found that redundancy has negative impact on share price performance. A year long analysis of 500 firms by Bain research found that firms with small or nolayoffs, saw 9% rise in share price over three years and firms that laid off 3-10% of staff saw share price rise by average of less than 1% in first six months over three years. Additionally the study also found that firms with layoffs of 10%+saw share price plunge by average of 38%.

A survey of 3,000 employees conducted by the Chartered Institute of Personnel and Development (CIPD) found that that seven in 10 (70%) employees report that redundancies have damaged their morale, with more than a fifth (22%) of employees so unhappy as a result of how redundancies are being handled that they are looking to change jobs as soon as the labour marketim proves. The findings revealed that redundancy situations do not affect those who are made redundant but also survivors. The findings reflect that the organization is likely to face high labour turnover due to redundancy and this is likely to affect the performance of the organization. CIPD (2008) state that employers are tempted to make people redundant on the assumption that this is the most straightforward way to cut costs are being short-sighted. They further posit that there are a number of direct and indirect costs associated with redundancy which can affect organizational performance as shown in the formular below.

3.15. Cost of Redundancy
\[ CR = nR + xH + xT + ny(H+T) + Wz(P–n) \]
where:
- \( CR \) = total cost of redundancy
- \( n \) = number of people made redundant
- \( R \) = redundancy payments
- \( x \) = number of people subsequently hired
- \( H \) = hiring costs
- \( T \) = induction/training cost
- \( y \) = percentage quitting post-redundancy
- \( W \) = average monthly staff salary
- \( z \) = percentage reduction in output per worker caused by lower morale
- \( P \) = number of people employed prior to redundancies

CIPD (2008) state that the formula include direct financial and indirect costs experienced in the form of higher labour turnover and lost output resulting due to redundancy. The costs go a long way in affecting negatively the performance of the organization. CIPD (2008) further state that due to hiring costs (H) and T raining costs (T), employers always run the risk of overstating the number of redundancies they need to make. For example an organization can lay off employees to cut costs during a downturn and the employer is forced to rehire in a boom forcing the firm to incur recruitment and induction costs. A survey by CIPD (2008) revealed that staff recruitment on average incurs a cost of £4,667 per recruit. This figure includes advertising costs and agency or search fees. The cost of recruitment ranges from an average of £553 per recruit for manual workers to £6,000 for managers and professional staff, rising to £10,000 for senior managers and directors. Having this, one can safely say redundancy increase costs and this can affect the performance of the organization. Sharing the same sentiments is Mentzer (1998) who posits that redundancy increase organizational costs due to the package granted on redundancy and costs associated with retraining.

Levine (1984) postulates that redundancy may lead to fiscal stress and human resources shrinkage which may pose problems to managers. He further states that redundancy problems may be a result of methods used by managers to deal with redundancy. Sharing
the same sentiments is Leana and Fieldman (1997) who propound that if a company is using last in first out method, it risk losing new ideas which a recipe for corporate failure. In addition Filatotchev (2000) argues that redundancy can cause survivor syndrome and this goes a long way in affecting morale and commitment of survivors. Once morale and commitment are affected it means organizational performance will be compromised. Marshal (2011) states that redundancy causes organizational unrest and employees tend to resist change. Fells (1958) states that due to redundancy, survivors tend to exhibit non learning behavior make intentional errors and sabotage as a way of expressing their survivor syndrome and this can affect organizational performance. In support a research by Worall, Campel and Cooper (2000) at UMIST-Institute of management to ascertain the impact of redundancy on United Kingdom managers’ sense of loyalty, motivation and morale revealed that redundancy is a particularly damaging form of organizational change which affects organizational performance in the long run. A research carried out by Sutton and Whetten (1988) among sub units of National Financial Services in London to examine effects of redundancy on organizational performance revealed that there is negative correlation between redundancy and employee and organizational performance as evidenced by loss of skill, demoralization, lack of commitment and job insecurity of the remaining employees. In support, Mentzer (1998) argues that due to redundancy employees developed stress which affected their quality of work which in turn hamper’s firm performance.

4. Research Methodology
The research adopted a case study research design in which both qualitative and quantitative techniques were used. The case study was chosen because the researchers had insufficient funds to carry a census of all retailers in Harare. Results of the findings will be used to infer to the population of retailers in Zimbabwe.

4.1. Study Site
The study was carried out in Harare because it is highly convenient to the researchers since the researchers stay in Harare.

4.2. Data Collection Instruments and Sampling Method
Sixty questionnaires were administered on the sampled elements using purposive sampling and random sampling techniques. Forty four questionnaires were retrieved showing 73% average response rate which is way above the recommended 10 % by Best and Khan (2003). Questionnaires were used as appropriate research tools to reveal sensitive issues which respondents would otherwise feel uncomfortable to talk about in an interview. A pre-test survey was conducted in order to evaluate the validity and reliability of the questionnaire. Questions that proved to be unclear to the respondents were modified, rephrased or discarded. Key informant interviews were also used to obtain in-depth data from the selected few.

4.3. Data Entry and Analysis
The data collected were analyzed using descriptive statistics or frequency distribution expressed in percentages and mean item score (MIS-Using 1,2,3,4 and 5 Likert Scale). Data interpretations were based on the results that emerged from the analysis.

<table>
<thead>
<tr>
<th>No</th>
<th>Statement</th>
<th>N</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>D</th>
<th>SD</th>
<th>MIS</th>
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<td>1</td>
<td>Cost cutting and technology are the major drivers of redundancy</td>
<td>44</td>
<td>30</td>
<td>4</td>
<td>2</td>
<td>5</td>
<td>3</td>
<td>4.2</td>
</tr>
<tr>
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<td>Redundancy fosters organizational performance</td>
<td>44</td>
<td>1</td>
<td>3</td>
<td>0</td>
<td>36</td>
<td>4</td>
<td>2.2</td>
</tr>
<tr>
<td>3</td>
<td>Redundancy increases firm’s costs</td>
<td>44</td>
<td>40</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>4.8</td>
</tr>
<tr>
<td>4</td>
<td>Redundancy reduce firm’s share price performance</td>
<td>44</td>
<td>10</td>
<td>14</td>
<td>6</td>
<td>8</td>
<td>6</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Table 1: Frequency Distribution and Descriptive Response of Participants

Key
SA = Strongly Agree
A = Agree
D = Disagree
SD = Strongly Disagree
MIS = Mean Item Score

4.4. Findings and Discussion
Statement one which focused on cost reduction and technology as the major drivers for redundancy showed affirmative response (MIS=4.2). The findings are consistent with a study by Ipsos Mori in 2008 among UK firms which found that one in four employers had contingency plans in place to make new redundancies with the aim of reducing its costs and enhance organisational performance. In addition Rifkin (1999) posits that technology and increasing capital intensity reduced the need for labour in every manufacturing sector. However the minority (MIS=0.8) were of the view that the major drivers of redundancy are bumping, economic downturn and business closure. Their views are supported by the Employment Rights Act (1996) which states that redundancy can occur if the employer ceases to carry on with the business due to company closure.
The second statement revealed that majority of the respondents strongly disagree and disagree with the view that redundancy fosters organizational performance (MIS=2.2). The findings are in line with a survey of 3,000 employees conducted by the Chartered Institute of Personnel and Development (2008) which found that that seven in 10 (70%) employees report that redundancies have damaged their morale, with more than a fifth (22%) of employees so unhappy as a result of how redundancies are being handled. In support, Marshal (2011) states that redundancies causes organizational unrest and employees tend to resist change. Sharing the same sentiments is Fells (1958) who states that due to redundancies, survivors tend to exhibit non learning behavior make intentional errors and sabotage as a way of expressing their survivor syndrome and this can affect organizational performance. From the interviews conducted the majority were of the view that firms must consider alternatives for redundancy say manpower planning, loaning out and pay cuts rather than adopting redundancy since it affects organizational performance negatively. Their sentiments were echoed by Apparanma (2010) who states that redundancies are usually costly for employers and employees alike. He further states that employers risk losing their investments when employees are laid-off and they incur additional costs in the form of redundancy benefits and severance pay. In addition Myers (1976) states that when business downturns seem imminent, managers usually opt for redundancy as a lasting solution but a strategic manpower planning could very well prevent over hiring. The majority (MIS=4.8) support the statement 3. The findings are in line with Mentzer (1998) who posits that redundancy increase organizational costs due to the package granted on redundancy and costs associated with retraining. In addition CIPD (2008) posit that there are a number of direct and indirect costs associated with redundancy which can affect organizational performance. The fourth statement (MIS = 3.3) dealt with redundancy and share performance. The findings concurs with Bain research (200) which revealed that nearly half of UK organizations have made redundancies with a 10%+ layoff giving a share price plunge by average of 38%.

4.5. Conclusion
The study recognizes that redundancy negatively affects firm performance and as such organizations must consider alternatives to redundancy say manpower planning, redeployment, loaning out and pay cuts. The mean item score for each statement has been shown on the table in which statement 3topped (MIS= 4.8) while statement 2 ranked last (MIS=2.2).

4.6. Acknowledgements
The researchers would like to acknowledge the patience and dedication of the participants without whom our work would have been a mammoth task to perform. God bless you.

5. References
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