Learning from the downturn:
Key messages from an employer perspective

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IES HR Network

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1 Introduction

This research report, produced for the IES HR Network, looks at the initiatives that HR functions took to reduce redundancy and protect skills during the recent recession. The aim of the research was to see whether organisations were responding to economic problems differently than in the past, and, if so, why there were adopting these strategies; and to consider whether such initiatives might have longer term beneficial impacts, not just on the bottom line but on factors such as employee engagement and workforce flexibility.

During the last quarter of 2009, IES visited four organisations (KPMG, Jaguar Land Rover, Norton Rose and the BBC) that had implemented innovative cost saving programmes in an attempt to reduce headcount reductions. We also took a look at the existing literature around the use of cost saving measures during the recession in an attempt to help organisations think through their responses to business change.

Much recent debate has focused on what was seen as the surprising resilience of the UK labour market in the most recent recession. It is clear that despite the depth of the economic downturn, the fall in the employment rate was not as severe as in previous recessions. One reason for this could be the greater intensity of active labour market measures, working to keep many more people closer to the labour market; the other is a more benign industrial relations climate and low inflationary environment, which have combined to make it easier for employers to make use of alternative strategies to mass redundancies and to 'hoard labour', in recognition of the value of the employee asset (Meager, 2010).

Employers have recently been under acute pressure to respond effectively to changing circumstances during the recession. In order to weather the storm, organisations have often been moved to 'reduce costs, to reconsider their corporate strategies and investments and to restructure their businesses' (Ulrich et al., 2009, p.3).

Lessons were learnt following the 2001/02 recession, when many companies were quick to make staff redundant but this presented further problems in the period of recovery. The Economist, in January 2009, commented that:

> *'During the relatively modest downturn at the start of this decade, for example, many professional-services firms cut too deeply, especially in their lower ranks, and found they were poorly positioned when strong growth resumed sooner than expected.'* (Economist, 2009)

Throughout the recent economic downturn we have seen companies applying a variety of cost saving measures ahead of reducing headcount, in acknowledgment of the need to be fully prepared for recovery. In this paper, we explore some of these measures by looking to the initiatives that HR functions took during the recent recession to reduce headcount reductions and protect their investment in talent.

2 Setting the Economic Context

Employment fell during the recent recession, but by a much smaller proportion than in the last two recessions (of the early 1980s and the early 1990s) despite the fact that the fall in output of six per cent over the past two years represents a much larger decline than was experienced during the two previous recessions (see Figure 1). During the early 1990s recession, in order to contain labour costs due to sharply increasing real wages, businesses quickly reduced the number of people they employed. However, the manner in which businesses responded to the falls in output during the recent recession appeared different. The Bank of England stated that:

> *'Businesses may have shown increased willingness to accept lower productivity for a period during this recession. And employees might have accepted weaker real wages in return for maintaining employment.'* (Bank of England, 2010, p.46)

Early commentary on the recession highlighted the growth in part-time and short-time working, arguing that although total headcount had fallen less than in previous recessions, this had been because 'the burden of adjustment had fallen on working hours rather than total employment' (ibid.). Evidence from the Labour Force Survey, however, shows that the trend in average hours worked appears to have behaved similarly to that of the early 1990s recession, with the number of employees reporting that they were working shorter hours rising by a similar amount (Bank of England, 2010). It therefore seems that we must look elsewhere to explain the robustness of employment in the recent recession.

Possible reasons include that real wages were more flexible than in the previous recessions, in which case businesses may not have had to make as severe headcount reductions as in the past. Different expectations of both employers and employees about the speed of recovery, compared to the early 1990s recession, could also have affected actions on employment, although surveys of output expectation did not suggest that businesses expected this recession to be shorter than previous downturns (ibid.).

A low and stable inflation environment could also be another reason why real wage growth during the recession has been weaker, alongside either a less powerful union movement, or one more prepared to accept the necessity of change, which may have increased management discretion to take cost saving actions that affect terms and conditions of employment, but ultimately retain labour. The continuing decline in unionisation across the economy may make employers rather more ambitious in broaching the subject of pay cuts with their staff, whereas in the past they may have feared union opposition.

The recent recession struck in an era of (relative) quiet in industrial relations, with low levels of industrial disputes. Over the years, collective wage bargaining declined dramatically as – in parallel to other shifts in society and legislation - the UK economic base became more competitive. Employer responses to the downturn that involve changes at unionised workplaces would, of course be subject to scrutiny, but broadly there was little indication that organised labour was in the mood for a fight.[1] This industrial relations situation, in which the interests of employees and employers are reasonably aligned – or can be easily aligned – opens up a wider range of response options than were available to struggling businesses in the past. These are all the more easily contemplated where workplace cultures are more open to flexible hours, career breaks and so on; measures which can make even more sense in a cost-cutting context.

Table 1: Output, employment, hours and wages during recessions

	1980s	1990s	2000s
GDP	-4.7 per cent	-2.5 per cent	-6.2 per cent
Employment	-2.4 per cent	-3.4 per cent	-1.9 per cent
Average hours	-3.0 per cent	-1.9 per cent	-2.2 per cent
Real hourly wages	2.7 per cent	7.3 per cent	0.1 per cent

Source: Bank of England Quarterly Bulletin 2010 Q1

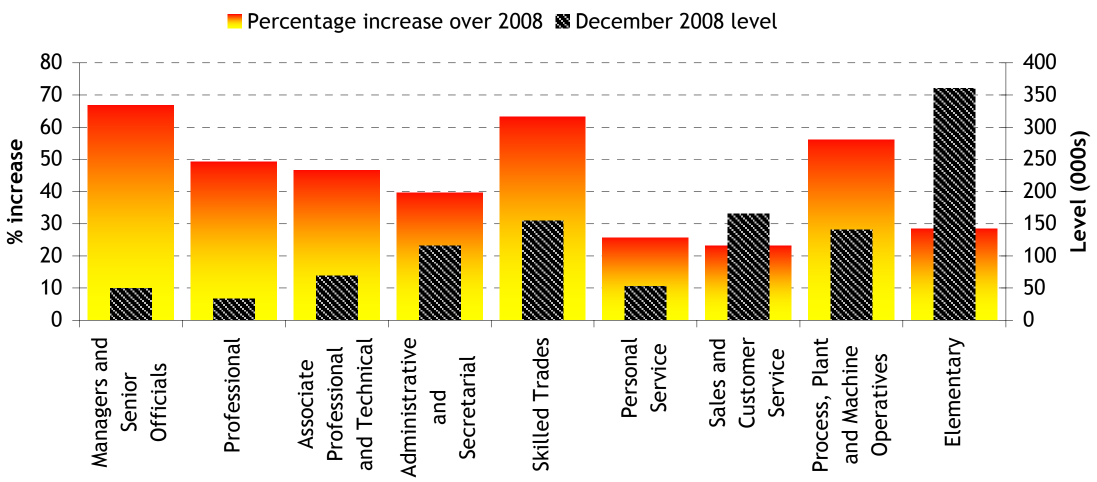
Any increase in the costs associated with reducing headcount, such as redundancy payments or the costs of hiring relative to the costs of making changes to working hours or pay levels, could also help explain why employment fell less, relative to output. The CBI has estimated that the average redundancy payment is about £12,000, and the Bank of England's Agents reported that companies were unwilling to make large-scale headcount reductions during the recent recession, which could be a reflection of the costs associated with redundancies (Bank of England, 2010, p.46). The Bank's Agents also report evidence of businesses suffering skill shortages

1 While this is the case for staff-wide issues, there are nowadays many more individual issues and disputes taken to employment tribunals.

after reducing headcount during earlier periods of weaker demand, and investment in human capital has increased enormously since the previous 1990s recession, therefore the value of the workforce could be considered to be higher than in previous downturns (Brinkley, 2009, p.7).

However, despite recognition of the need to retain key talent, a look at the composition of the claimant count in the recent recession, and for whom it was rising, reveals that at the beginning of the recession it was the highly skilled who were the fastest growing group. Professionals and managers, previously not a common sight at the Jobcentre, were the fastest growing groups, along with the skilled trades. Among the unemployed usually employed in blue collar occupations, the skilled trades and technical operatives were faster growing groups than the elementary occupations.

Figure 1: Occupations: Higher skilled, traditionally 'safe' occupations saw fastest claimant count increases



Source: Jobcentre Plus administrative data (retrieved from NOMIS) cited in Usher et al., 2009

For employers that continued to recruit during the recession this was good news, as problems with skills shortages and gaps could inevitably recede as business needs reduce and as the supply of qualified and experienced jobseekers increased. In the longer term, however, demand for higher-level skills is expected to return. And those employers that have been compelled to shed skilled staff in order to survive the recession may find it all the harder to start again from scratch in the upturn.

Evidence from previous years has shown that employment levels can take many years to return to pre-recession levels, and also because employers made fewer job cuts than in previous recessions:

'economic recovery is likely to involve more "jobless growth", as they will not need to recruit staff to cope with any resumption in demand. In the meantime many peoples' skills become less valuable, they become disaffected with the job search process and – as happened in the 1990s – some people may leave the labour market altogether.' (Usher et al., 2009, p.6)

Most sectors, not just the bankers and house builders

The impact of the downturn on the different sectors of the economy was considerably more complex than the press caricatures of bankers' and Woolworths staff redundancies: the downturn affected a very broad range of sectors, but alongside this redundancies were not skyrocketing. Redundancies are, of course, the most dramatic form of job loss, but first it should be remembered that many more job losses occur through less visible non-replacement, and second that net employment decline in a recession occurs not just through gross job loss, but through a falling rate of new business creation and new job creation in existing businesses.

Employment in knowledge-based industries is typically more resilient in the face of recession than jobs in the rest of the economy. Knowledge-based industries account for just under 50 per cent of all employment in the UK (Brinkley, 2009, p.16), but accounted for less than 10 per cent of job losses during the recent recession, with total employment across the knowledge intensive sectors falling by 2 per cent, compared with 3.3 per cent across the rest of the economy (Brinkley, 2009b, p.11). The opportunities for implementing more creative strategies that avoid headcount reductions such as working hours flexibility, are often more available in the professional services firms than in the less knowledge intensive sectors, therefore growth in this sector since the previous recession may also help explain why falls in employment levels are less than in previous downturns. The financial services industry was a 'key driver behind the expansion of the knowledge economy in recent years, currently providing one-third of all knowledge service exports' (ibid., p.16). This growth is expected to be slower in future years and recovery will be more dependent on expansion in other knowledge-based services (ibid.).

We can speculate on whether recovery will be V-shaped or a double-dip recovery, but estimates are that it is unlikely to take more than four years to return GDP levels to pre-recession heights (Brinkley, 2009). However, employment levels take longer to return to pre-recession levels. In previous recessions, employment levels were not restored until up to 10 years after the recession started. The hoarding of labour during the recent recession, however, should mean that it may be possible to return to previous employment levels earlier than experienced in previous recoveries (ibid.).

The increase in the number of white collar and relatively higher-skilled workers that joined the claimant count during the recession may also suggest that the recent downturn will cause less long-term damage to society than past recessions in which many who had (intermediate or low level) heavy industry skill sets were simply left behind by the changing structure of the UK economy: many of those made unemployed this time will have generic, transferable skills in ICT or in customer care that can be used across a range of service industries.[1] There will, nevertheless, have been many lower-skilled job-losses and these less fortunate jobless (including many with facing multiple barriers to work) will be severely disadvantaged in relation to their counterparts with slightly better skills and experience when firms being to recruit properly again.

Younger workers

Younger workers felt the impact of this recession particularly badly. In the first year of the recession the redundancy rate for 16 to 24 year olds increased from 12.7 per 1,000 employees to 17.7 per 1,000, the biggest increase for any age group. The employment rate for this group also fell by more than any other age group in the first year of the downturn (CIPD, 2010b). More younger people turned to further education rather than unemployment, however those retaining their jobs show signs of dissatisfaction.

The CIPD Employee Outlook survey of over 2,000 employees showed job satisfaction levels for 16- to 24-year olds has severely dipped. The CIPD attribute this to younger workers being unsatisfied with opportunities to learn new skills and progression at work as a result of the recession, with some 48 per cent disagreeing that they have learnt new skills (CIPD, 2010b). It also states that ‘the stagnant labour market means that there is much less movement, leaving many young people stranded in entry-level jobs’ (ibid.). Also, the reduced opportunities for young people to access jobs with training, such as apprenticeships, are a particular government policy concern due to the potential long-term consequences for individuals, businesses and the economy.

Migrant workers

As the jobs market in the UK slackened, this also led to a decline in immigration to the UK for work and led to more migrants returning home, especially as the weaker

[1] There may, of course, also be particular categories of higher-skilled jobless whose skill-base is becoming less relevant to evolving economic needs (or even obsolete). In some cases, higher-skilled, more specialised jobless individuals may even be less ‘flexible’ in that they may, for a variety of reasons, be reluctant to move away from the occupations for which they trained.

Pound made the UK less attractive for migrants working in the UK and sending money home (IPPR, 2010). For the first time, there was net emigration from the UK by citizens of the so called ‘A8 countries’, since they joined the European Union. Some 12,000 more A8 citizens left the UK than arrived in the year to September 2009 (IPPR, 2010, p.1). Net immigration to the UK, in the year to September 2009, also declined by 11 per cent compared to the previous year (ibid., p.1).

As the emigration of non-UK born people rose and immigration declined, for every case in which this happened, it meant a UK job loss would not translate into UK unemployment. In some regions, migrant labour may act as a shock absorber, dampening the impact of the downturn on local unemployment. This could be the case if a proportion of those losing service and construction sector jobs or agricultural and food processing jobs leave the UK instead of claiming benefits.

3 The Organisational Context

Against this broader economic background, we need to understand the organisational drivers that might lead companies to be more innovative and experimental in their approaches to change in this recession than previously, despite the fact that financial savings through redundancies would quickly meet the organisations' short-term goals. Indeed, a number of organisations implementing alternative approaches to cost savings outside of redundancies admitted that compulsory redundancies were initially considered as a prime solution.

In consideration of the organisational drivers leading companies to implement more experimental strategies to business change, four broad themes emerged from our research:

- the need to retain skilled employees in preparation for recovery
- a recognition that employee engagement would be affected during any change
- the need to protect the employer brand image
- the importance of minimising the hidden costs of redundancies.

We will now explain each of these themes in turn.

Firstly, the cost saving approaches employees have taken that have retained labour may be a nod towards an acknowledgment of the need to be fully prepared for recovery, which is harder if you are at reduced capacity with knowledgeable and skilled employees gone. In previous downturns key skills, such as IT, have been lost due to poor workforce planning and simply reducing headcount without thought to the future. 'This is especially important if poor business performance is due to cyclical economic problems rather than underlying problems with a business model or structure, since employers will need to try to recruit staff in the future.' (Cox et al., 2009, p.11). Therefore, there has been an imperative to retain and protect investment in talent both to survive the recession and succeed thereafter. Previous downturns also demonstrated that it takes considerable time to recruit adequately once the market improves, and managers are all too familiar with the 'war for talent' in the good times. This may make them cautious in shedding staff, due to fears about future difficulties in recruitment, and younger managers who may never have experienced a slack labour market may also be less conditioned to the use of redundancy as a cost saving device than employers with experience of previous economic downturns (Cox et al., 2009).

Secondly, there has been a desire to avoid the crude downsizing methods that can have adverse effects on the employees left behind – the so called 'survivor syndrome'. Developing employee engagement has been a more explicit aim of organisations in recent years because of the belief that this will drive higher organisational performance. Maintaining engagement during a downturn is especially important in meeting organisational goals. This suggests giving particular care to the process of achieving cost reduction, involving employees as much as possible in the decision making, and then executing any difficult decisions in a demonstrably fair and even-handed way.

Thirdly, how an organisation handles cost savings also resonates in the labour market. Again organisations have invested much in their brand image and do not want it sullied by the way in which they are perceived to have handled the recession. Similarly, having an attractive 'employee value proposition' (the content of the employment offer) is important both internally to the organisation's own employees, and as an external marketing device. Employers may be seeking to limit damage to the EVP, or even be seen to enhance it in the way that change is handled.

Finally, there are the enormous hidden costs of redundancies, observed in companies in the 1990s who were laying off staff in one part of the organisation, only to be hiring others in another part. Whilst redundancies may seem 'one of the most straightforward ways of cutting costs' (Philpott, 2009), if redundancies are an organisation's first resort when demand falls, when that demand is restored this has to be quickly reversed by renewed hiring (ibid.).The hidden costs arise from the cost of recruitment, induction and training, as well as from the effect of redundancies on the surviving employees. Against this background, redeployment might not be seen as such an expensive option.

Challenges for HR

On the face of it, it may seem that HR had to relearn the basics of downsizing during the economic downturn: redundancy packages, redeployment methods, outplacement services, dignified shedding of staff, managing 'survivor syndrome' and so on. In fact, these processes are no novelty in many HR departments after the recent years of continuous improvement in the private sector and reorganisation in the public sector. Simultaneous restructuring, redundancy and recruitment have become the new 'three R's' for HR. This means that many HR departments not only have the capability to downsize if necessary, but they are also in a position to help steer their organisation away from short-term 'fire fighting' and maintain the link with normal business processes and strategy.

However, it was the size of the challenge that distinguished the process confronting HR during the recession. Organisations that already had a lean operating structure found they there was no fat left to cut during the recession, and hard decisions had to be taken over where to direct savings. Whilst HR may have the capability to implement a downsizing process, it does not always follow that they have the capacity within the organisation to do so without severe consequence for the work organisation or job design of surviving employees.

The recession tested HR's skills, as public sector cuts will do so in that sector. Focus on workforce planning and OD skills will be critical for HR as companies recover from the recession. Sophisticated scenario planning and work levelling methods will also be useful to the challenge function of HR alongside querying short-term assumptions and crude cost-accounting.

The litmus test will be whether HR has had to act as a bulwark to protect skills, retain, nurture and reward talent, and maintain the things that keep people engaged and motivated, or whether the leadership of the organisation is equally committed to these goals.

4 The Five Main Messages

In response to falling activity levels during the recession, employers adopted a number of cost saving strategies as alternatives to reducing headcount. Research conducted by the CIPD and KPMG (February 2009) showed the top ten alternatives to redundancy in operation during the downturn were:

1. recruitment freezes
2. pay freezes or cuts
3. pay deferral schemes
4. removal of overtime
5. short-term or flexible working
6. reduced use of agency workers
7. cuts in bonuses or pension payments
8. sabbaticals (paid or unpaid)
9. secondments to other companies
10. redeployment in other parts of the business

These different responses to the impact of the recession show that employers have adopted actions that they may not have implemented in past downturns. Our review of the existing evidence, reinforced by our findings from the four case studies, leads us to the following provisional conclusions about these initiatives that HR functions took to reduce headcount reductions and protect investments in talent:

1. There is clear evidence of **pay-focused approaches** being widely adopted as alternatives to redundancy, with pay freezes being the most prevalent.

2. Despite the aggregate evidence suggesting no greater tendency to reduce hours worked in the recent recession, it would appear that greater innovation in hours adjustments through a variety of **flexible working practices**, was a major theme for employers looking to cut costs by flexing or temporarily reducing time inputs.
3. There is evidence of employers paying significant **attention to people processes** during the recession, in order to maintain employee engagement and motivation levels.
4. There is evidence of employers having taken a more **strategic approach to decision making** around achieving savings, often on an enterprise-wide basis, and on protecting an organisation's ability to capitalise on new demand when growth returns.
5. Employers have attempted to foster a **'shared destiny' approach** in applying cost saving strategies across all levels of the organisation and establish collaborative working relationships and a one-firm response to changing business circumstances.

In the sections below, we present the evidence underlying our conclusions, but it should be noted that these themes are inter-connected rather than discrete and that evaluation of their effectiveness is not yet complete. Moreover, it should also be stressed that strategies we describe were often more emergent than clearly determined at the outset. There was evidence of experimentation and as the recession deepened, companies became more creative in their search for the optimum solution (Towers Perrin, 2009).

5 Pay-Focused Approaches

As the list of alternatives to redundancies in the previous section shows, much of the focus of cost-cutting was on reducing pay costs per head as well as reducing the size of labour input. Concentrating on pay-related cost cutting, at the height of the recession, a survey of 1,600 UK workers, showed over half (54 per cent) of workers had experienced a cut in pay, a reduction in hours or a loss of benefits since the recession began (Keep Britain Working, 2009). Whilst over one-third (37 per cent) of UK workers had experienced just one of these changes, 12 per cent had experienced two of them and five per cent have experienced all three. Two-in-five workers had been given extra responsibilities, whilst one-in-five have had the nature of their role changed, within the same organisation.

Salary freezes

A Towers Perrin survey also found that the most common cost-cutting approach was salary freezes (see figure 2), both for the workforce and for executives (Towers Perrin, 2009). In response to budget pressures at the BBC, a series of measures of which most are salary freezes, have been put in place that will reduce the spend on senior managers by 25 per cent over the next three years. BBC executive pay has been frozen for four years, bonuses for executives have been removed indefinitely, senior management pay has been frozen, and all senior management bonuses have been removed for two years. The BBC has also pledged to reduce the number of senior managers by 18 per cent over a four-year period (BBC, 2010).

At Jaguar Land Rover a pay freeze implemented in November 2009 generated savings of £11.7 million and non-management staff bonuses worth £2,000 a year were cancelled, which generated savings for the company of £4.5 million.

The Mercer Salary Indicator survey (CIPD & Mercer, 2010) also showed that more than half of organisations froze salaries in 2009, and the use of pay freezes was also reported in the CIPD Reward Management survey report (CIPD, 2009) and

Employee Pay Attitudes Survey (CIPD 2010b). The proportion of staff saying their organisation had frozen pay had increased to 35 per cent, from 29 per cent from the Autumn 2009 Employee Outlook, while six per cent of respondents reported their organisation had cut pay, down from eight per cent (CIPD, 2010a). And in a recent PricewaterhouseCoopers (PwC) survey, one-in-three employees (34 per cent) in organisations that had frozen or cut pay, found the decision demotivating, leading to the conclusion that:

> *'Pay and promotion freezes, changes to pension schemes, cuts in recruitment and slashed training budgets, combined with poor communication, have eroded the bonds of trust between some employers and their employees.'* (Jon Terry, Head of Reward at PwC, cited in *Employee Benefits*, 2009)

Towers Perrin research showed that the actions companies were considering implementing became more 'creative' as the recession deepened, with larger proportions of companies considering implementing actions such as unpaid leave, after first applying salary freezes (see Figure 2) (Towers Perrin, 2009).

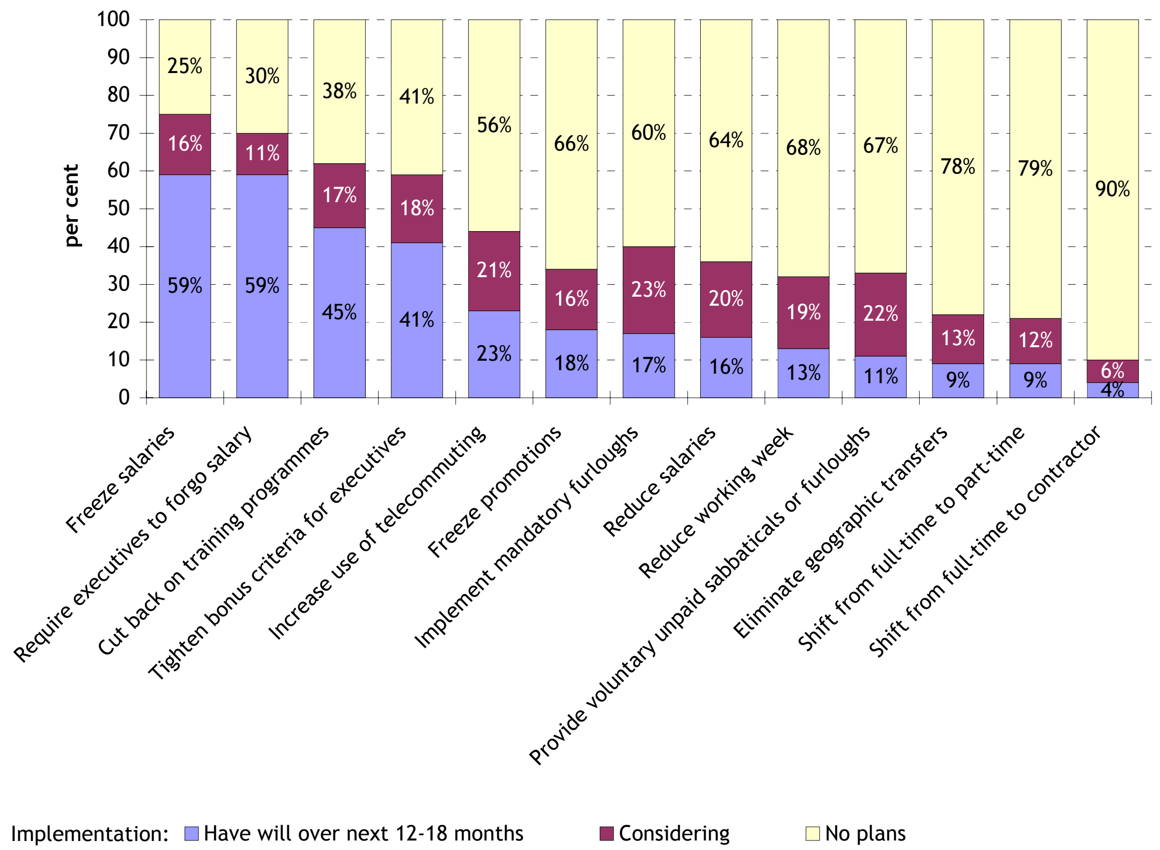
Management discretion over the use of pay freezes, including pay increment freezes and even promotion deferrals, made them relatively easy to implement during the recession and they may even have had the advantage of seeming 'fair', though they may adversely impact on talent management and the retention of key employees. Indeed a number of attitude surveys suggest that employee morale and engagement have suffered from the actions taken on pay (Brown, 2010). We discuss the concept of pay fairness in a later chapter.

However, the extent to which salary 'freezes' in the private sector over the duration of the recession have really been absolute pay freezes has to be questioned. The CIPD reported that over one-third (35 per cent) of staff stated that their organisation had frozen pay (CIPD, 2010), however various surveys and IES's own research have highlighted that in a significant minority of cases pay freezes had been applied with what the HR Director of Canon Europe told IES's Annual HR Conference late last year: 'a pinch of salt'. Incremental and developmental pay increases, 'hot skill' payments for professional staff, pay increases and retention bonuses for high performers, all seem to have continued to operate in 2009 despite no general pay award, meaning that at least some staff received earnings increases.

Reductions in total earnings

However, the use of other cost saving strategies, such as a reduction in overtime and short-time working have worked to reduce total earnings for employees. The CBI showed over two-fifths (43 per cent) of companies reduced paid overtime during the recession (CBI et al., 2009, p.17) and the unions at Jaguar Land Rover claimed the move to blue-collar staff working only day shifts with minimal overtime represented a 30 to 40 per cent drop in members' incomes.

Figure 2: Implementation of cost cutting measures



Source: Towers Perrin (May 2009)

6 Enabling Flexibility

Temporal flexibility is a means by which organisations can vary working hours to achieve a more effective deployment of labour to meet business requirements. It can be used at management's instigation, such as in short-time working, to reduce time inputs, or it can respond to employee wishes to vary their working hours to suit their personal circumstances. Throughout the recession organisations employed greater use of both sorts of temporal flexibility, but particularly noteworthy were the mutually agreed introduction of more flexible working patterns to flex or temporarily reduce time inputs.

Short-time working

The use of short-time working, described by Reilly (2001) as a 'kind of poor man's version of annual hours contracts' (ibid., p.36) has been used particularly in the manufacturing sector to allow employers to reduce employee's hours and pay when demand falls back, with the assumption that the workload will pick up again after a brief period and normal working can resume. According to the CBI, a quarter of organisations during the recession had cut shifts, and around one in five (17 per cent) had implemented short-time working (CBI et al., 2009, p.11) since the recession began. During the recent recession the national press also reported numerous examples of short-time working being implemented at companies including Jaguar Land Rover, JCB, Honda, Toyota, GKN and ArcelorMittal. Employees in the manufacturing sector experienced the biggest increase in short-time working, as factories slowed production and the car manufacturers were at the forefront of these actions (Gilmore, 2009).

At Jaguar Land Rover, for example, the working week was reduced from 37 hours to 35 hours a week Monday to Thursday and the plant was shut down on Fridays. This represented a 2.8 per cent pay cut for blue-collar workers, and a £5 million saving for the company. At Honda, factories were shut for four months from

January 2009, with workers receiving full basic salaries for the first two months, followed by 60 per cent of pay for the remainder of the shutdown (Kollewe, 2009).

Whilst the recession forced many employees to work fewer hours, in some sectors this also impacted on the amount of unpaid overtime worked (TUC, 2010). In some sectors, cuts in basic working hours and a fear of redundancy among workers created a culture of unpaid overtime that has become to be regarded as a 'norm' (Prosser, 2010).

The former HR Director at Sainsbury's, Imelda Walsh, commented in 2009 that:

> *'there is a "marked contrast" between the cost saving measures - and alternatives to redundancies - that employers were looking at in this recession compared with any previous ones. [Employers] are thinking more creatively about short-time working and leave. A lot of companies are making sure their economic obligations are met, as well as keeping their skills and people. Flexible working as a term is associated with the bountiful years that have come to an end.'* (cited in Phillips, 2009)

Walsh, however, observed that employers during the recession became more 'open-minded to flexibility in a broader context' (cited in Phillips, 2009, p.13).

Flexible working patterns

The other opportunities for temporal flexibility were demonstrated through the use of more flexible working patterns during the recession. Traditionally, flexible working, like flexitime, part-time hours or term-time contracts, has been offered more as a benefit for employees to attract, retain and motivate them. However, they can allow companies to seek ways to make cost reductions without losing talent altogether, and can help place them in a favourable position when demand for services or products returns. For example, the shift from full-time employment during the recession (which fell by 4.1 per cent) to part-time work (which increased by 4.4 per cent), helped employers reduce labour costs whilst minimising redundancies (CIPD, August 2010).

Such initiatives have had broad support. For example, The Equality and Human Rights Commission (EHRC) has advocated that retaining key staff is important for maintaining quality and containing costs, stating: '*the best employers recognise the benefits of two-way flexibility to ensure they can provide quality services when customers need them. Flexibility gives managers a powerful tool to respond to both customer and employees needs.*' (EHRC, 2009, p.5) The CIPD and Acas also produced joint guidance during the recession encouraging employers to think about ways to minimise redundancies if workforce reductions were inevitable, through the use of sabbaticals and short-time working amongst other actions (Acas, 2009).

These sort of messages seem to have been heeded. The use of reduced hours during the downturn increased. Joint CIPD and KPMG research in February 2009 showed that 19 per cent of companies were making greater use of flexible working during the recession. CBI research, some four months later, in June 2009, found over two-thirds (69 per cent) of organisations had increased or were planning or considering increasing flexible working (CBI et al., 2009, p.17). Another (US) study conducted by the Families and Work Institute showed that most employers were maintaining flexibility (81 per cent) during the recession or increasing it (13 per cent), viewing flexibility as a way to engage employees, or focusing on retaining key employees (HR Focus, 2009).

Working time flexibility was also a valued feature within the case studies IES conducted for this report. Norton Rose, for example, seized upon an opportunity to increase the flexibility of their workforce during the downturn, reduce redundancies, and make cost savings through a reduction in the paybill, by implementing a programme that offered staff a sabbatical of up to 12 weeks at 30 per cent of pay, or the option of working a four-day week at 85 per cent of salary. They told us that the key to the success of their scheme was that its application had to be flexible for both the employer and the employee. Employees were able to 'bank' days if they had to revert to working five days a week when client pressures demanded extra resource. A scheme of this nature could not be applied rigidly, and it relied on the goodwill of the employer and employee to be flexible in the use of Flex days to suit the workload.

Leadership is also essential for flexibility to work effectively. The EHRC suggests buy-in from senior managers or directors is necessary to 'implement workable solutions that benefit the business, and individual managers must translate this support into tangible results for their teams' (EHRC, 2009, p.13).

The importance of achieving senior support for cost saving programmes was demonstrated by KPMG (see below), which received significant buy-in for its scheme from senior managers, with the scheme being launched to UK partners in advance of all other employees. More than 90 per cent of this senior group signed up to the scheme, which helped foster the approach as a collaborative, one-firm initiative, which we discuss in more detail later. Both KPMG and Norton Rose told us of the increased appetite for flexible working amongst employees, and gave us insight into how more permanent approaches to flexible working might be implemented after the recession.

KPMG launched 'Flexible Futures' in January 2009 in order to achieve flexibility in its workforce costs and retain its investment in talent. The scheme involved two voluntary flexible working options:

- one day off a week unpaid
- between two to 12 weeks off at one-third of pay.

It provided a guarantee that there would only be a maximum 20 per cent salary reduction for employees. Staff could opt to take one or both options. The second option was the most popular, as employees could fit the time release in blocks to fit around school summer holidays or childcare. Some 83 per cent of the workforce signed up to the scheme across 10,000 employees.

Neither KPMG nor Norton Rose introduced their scheme as a permanent arrangement, but the large number of positive responses and agreements to take part may have a longer-term impact on the organisations. At KPMG there has been an increase in normal flexible working options being signed up to, and annualised days and glide time (8am to 4pm or 10am to 6pm) have increased. It also predicts more employees may sign up to its regular flexible working patterns once the agreed period of change in terms and conditions comes to an end.

A shift in flexibility

These responses suggest there is a demand for more flexible working and that flexibility can become more acceptable for men and women if sustainable employment practices and business benefits are at the heart of schemes, rather than a focus on childcare and work-life balance, although these are of course, much valued by-products (IES, 2010). Achieving a link between flexible working practices and the requirements of an organisation is key(Working Families, 2008, p.1) but with more men being forced into working flexible working patterns during the recession, this may help have a longer lasting impact on attitudes towards it (Phillips, 2009).

7 Attention to People Processes During a Downturn

Cultural change in recent years, as well as the imperative to look after staff in a tight labour market, brought to the fore a range of HR initiatives that may seem improbably warm and fuzzy in the cold light of cost-cutting and job losses. In this climate, some businesses will chafe at certain employee-centred voluntary schemes, and are likely to contest regulatory impositions of any further benefits for employees. Of course, there is a business case for fairness, for treating employees well and for allowing workplace diversity to thrive that can be made independently of social justice and ethics. Nevertheless, how well it is received by managers can seem to wax and wane with the economic climate.

The emerging link between people and performance, which IES has been central in researching in recent times, may apply even more in a downturn because of the performance ramifications of decreased motivation and increased risks of stress occasioned by money worries and job uncertainty. There is more than this, though, because – as can be seen from the alternatives to redundancies being used by employers – there are many aspects of treating employees better that can be adapted as part of a cost-cutting strategy. In other words, there may be room for employers and employees to come to a mutually beneficial arrangement.

One of the ways of avoiding the performance ramifications of a recession is through giving particular care to the process of achieving cost reduction and executing any difficult decisions in a demonstrably fair and even-handed way. Managing a change process in this way will help to retain, motivate and engage key employees during difficult times.

Due to the perceived link between profitability and employee engagement, it is necessary to maintain employee's commitment to the organisation during a downturn. Changes within an organisation implemented due to changes in activity levels can be seen as an opportunity or threat to employees. If employees feel their job is threatened, it will be harder for them to 'connect to the broader purpose of the company' (Robinson, 2010). Therefore, employee engagement plays an important role in generating creative solutions to problems, which affect both employer and employee.

Employee engagement

Our case-study and other research evidence suggests that employers made efforts to maintain employee engagement during the downturn, in the belief that it is engaged employees who will keep companies afloat during the hard times, and help them recover and thrive when business activity levels rise. Employers have also recognised that the way in which they manage the workforce during the downturn impacts not only on the well-being and productivity of the surviving employees, but also on the external presentation of the company brand and reputation. Therefore many employers have been focusing on more intangible factors such as timely communication and promoting honesty and trust within the business. They have been especially careful to recognise that fairness in change processes and the demonstration of 'procedural justice' is important to secure the support of both 'winners' and 'losers'. This applies to how change is instigated and how it is delivered, especially in matters such as selection for redundancy or redeployment.

During the recession there was a fear of companies finding themselves: *'crippled in their efforts to claw out from the recession, abandoned by their best workers once hiring picks up'* (Frauenheim, 2009). Any improvement in the job market will present employees with alternative employment options, and any employees who do not feel engaged by their employer may follow up these alternatives (Frauenheim, 2009). A US survey of large employers conducted by Watson Wyatt in May 2009 showed that engagement levels for top performers dropped by almost 25 per cent year over year, with employees overall experiencing a nine per cent drop in engagement year on year (ibid.). This therefore illustrates the need for companies to recognise the importance of employee engagement both as a retention and productivity tool.

A recent report by the International Labour Organisation comments that:

> *'companies with long-term Human Resource Development strategies are more likely to view their employees not only as costs, but also as assets.'* (Ulrich et al., 2009)

… and, our research has suggested, during this downturn, maintaining the engagement of the employee 'asset' has not been neglected, with a focus on how cost saving processes are implemented in ways that foster the mutuality of an engaged relationship and build trust in the integrity of management. The IES definition of employee engagement is as follows:

> *'Employee engagement is a positive attitude held by the employee towards the organisation and its values. An engaged employee is aware of business context and works with colleagues to improve performance within the job for the benefit of the organisation. The organisation must work to develop and nurture engagement, which requires a two-way relationship between employer and employee.'*
> (Robinson, 2009)

Valuing honesty, integrity and trust

IES research found during the recession, character traits in managers, such as integrity, honesty, humility, modesty and reliability, attracted attention and admiration. This had started before the recession, but the downturn has simply accentuated this trend. IES's recent research on engagement focused on the behaviours adopted by managers who are perceived by their organisations, and in particular their teams, as being 'engaging'. These include, among others (Robinson, 2009):

- integrity, honesty and openness – for example, when breaking bad news
- providing clear explanations and direction, and skilled at communicating organisational culture and aims to the team
- interest in people, knowing what interests and motivates them as individuals, and understanding their strengths and weaknesses
- involving the team in decision-making and work organisation, and delegating effectively
- visibility and accessibility.

However, the research showed teams were also very appreciative of managers who were performance-driven, and who were able to be hard-edged and firm if the situation required it. It would appear that a 'key lesson for leaders is that engaging with employees takes time, effort and hard work, and is about genuinely establishing a two-way, collaborative relationship' (Robinson, 2009).

The Equality and Human Rights Commission provided case study evidence of the importance of fostering this collaborative relationship. A case study at West Bromwich Tool and Engineering Company found two-way dialogues with employees proved helpful when the firm had to move to a four-day week, putting everyone on 80 per cent of pay for three months during the recent recession. The owner told the EHRC:

> *'It comes down to having a relationship that's based on trust. When we told them these were extraordinary circumstances and things were bad, they really understood that it was serious and necessary.'* (EHRC, 2009, p.6)

At KPMG, trust was also perceived as having vital importance in ensuring the success of their Flexible Futures scheme implemented to reduce workforce costs. It was thought such high levels of sign-up to the cost saving scheme would not have been possible if staff did not have trust in their performance managers. As we have seen, the scheme was also applied across all levels of the organisation, including UK Partners, in a collaborative, one-firm approach.

Evidence from the CIPD, however, shows that experiences during the recession have had a negative impact on employees' perspective of the honesty and openness of their managers, with the number of employees who believe their manager to be usually or always open and honest falling since the last quarter (from 60 per cent to 55 per cent). This suggests that a lack of trust exists in employees' relationships not only with senior managers but with employees' own line managers (CIPD, 2010).

The CIPD also found respondents are less positive in their attitudes towards their *senior* managers, and they were most negative and most likely to disagree that their senior managers consult them about important issues. The CIPD stated that negative perceptions of consultation is an issue that has got worse over the past year, and is an issue that needs to be tackled to improve employee engagement, motivation and retention in the long term (CIPD,2010).

Maintaining the engagement of the 'survivors'

Any poor management of the workforce during a downturn and the cost saving measures implemented have the potential to also damage the reputation of a company and therefore its competitiveness. Reducing headcount is often one of the first things companies will do when the economy begins to decline, yet research has shown this has adverse effects on the employees left behind.

Earlier IES research (Wolfe, 2004) has shown that, when headcount is reduced, the 'survivors' may experience a decrease in morale, increased absenteeism, reduced job motivation, reduced organisational commitment and employee engagement, risk avoidance, reduced speed of decision making and a drop in productivity (Wolfe, 2004) and finally managers have to manage a disengaged team. Research amongst senior US managers showed that some 70 per cent who remained in downsized firms reported that morale and trust declined (Ulrich et al., 2009, p.13). Also, after downsizing in a major Australian bank, some 49 per cent of 'survivors' felt a decreased sense of commitment to the organisation, 64 per cent experienced decreased job satisfaction, and 83 per cent reported increased stress (ibid.).

The attitude of the survivors will be largely determined by the management of the change process and the demonstration of procedural justice, as this will contribute to people's judgement of the fairness of the changes. It is how an employee feels they have been treated rather than the outcome itself that counts most in their minds and affects their acceptance of any changes (Reilly, 2001).

Communication of changes

The way in which any changes are communicated to employees can also profoundly affect the commitment and well-being of the 'survivors' and can determine their perceptions of the current situation and their expectations for the future (Wolfe, 2004). It is important to think beyond the short-term cost savings when implementing cost reduction programmes, and to manage the process of change skilfully. How cost reduction programmes are managed in the short-term will greatly influence how employees respond to the longer-term impact of the cost savings (Ulrich et al., 2009).

Maintaining effective communication during the change process was a key element in the implementation of the cost saving strategies employed by the IES case-study organisations. Similarly, a study by Deloitte (2008) described cost improvement as 'both a science and an art', arguing that, on the one hand, it is critical to pursue tangible cost savings, yet on the other hand, less tangible factors such as stakeholder buy-in and timely communication are often just as important to achieving the desired outcome (Deloitte, 2008). IES research on reward effectiveness has also highlighted just how critical communications really are, with 65 per cent of participants recently planning and investing in improvements in employee communications or understanding (Brown et al., 2010).

Improving communication is also a common method of boosting engagement levels. This could be in the form of briefings about company financial strength, staffing plans and business goals (Frauenheim, 2009). A Watson Wyatt survey of HR executives at 175 US firms found increasing communication to be the top-ranked strategy to maintain employees' engagement (ibid.)

Communication was regarded as a valuable tool by the IES case study organisations for achieving buy-in and keeping employees engaged with the cost-reduction programmes. At the BBC, an employee attitude survey revealed that there was improvement in staff understanding of the direction of the BBC due to the communications received about reinvestment and BBC long-term strategy. Across all of the case study companies, intranets enabled two-way communication around the proposed initiatives. This technology allowed employees to not only have their questions answered around the impact of signing up to schemes on their terms and conditions, but also to offer suggestions for other cost saving routes and feedback on schemes already in operation.

KPMG launched an employee survey to those staff invoked onto its Flexible Futures scheme. The results of this showed that some employees did not understand why they were being invoked and others were not. This feedback led the company to be more candid about the operation of the scheme: once employees had signed up to the scheme, some were invoked on an involuntary basis, when their department required the flexibility, and in some divisions applications for Flexible Futures would be declined due to client demands.

Managing impact to the company brand

Alongside the need to increase internal communications with employees, the way in which organisations handle the cost saving process can also resonate externally in the labour market. Organisations will have invested heavily in developing their brand image and do not want it to be sullied by the way in which they manage a change of fortune during a downturn.

Protecting the content of the employment offer is important for both a company's existing employees, but also for use as an external marketing tool. Norton Rose, for example, received significant media exposure in the national and human resources press around the cost saving measures it introduced. This external exposure has been considered to have been a positive consequence for the company brand. It is thought that graduates when choosing their preferred employer will consider that Norton Rose is an attractive employer proposition due to the way it treated its employees during the downturn. The company placed particular emphasis on protecting employee loyalty, as when the market picks up all firms in the same market will attempt to recruit largely from the same talent pool, but as Norton Rose did not shed its talent during the recession, it considers that it will not be exposed in the same way as other firms that have reduced headcount.

The implementation of the cost saving scheme also generated a significant amount of goodwill among existing employees. In July 2009, after the implementation of its scheme, it was reported in a trade publication's survey that some 85 per cent of Norton Rose employees believed the way its employer had managed change during the downturn had enhanced the reputation of the company and brand. Therefore employers may be seeking to limit damage to the employer value proposition, or even be seen to enhance it in the way that change is handled.

More widely, a survey conducted by the CIPD and Mercer in May and June 2009 showed that almost half of respondents felt a positive or negative effect of the recession on their employer brand, for example, it either offered them an unrivalled selling point, or conversely it was compromised by reduced engagement, retention and reward (CIPD and Mercer, 2010, p.2).

The benefits of protecting investments in talent and employee loyalty during the downturn were summed up by Jon Terry, Partner and Head of Reward at PwC, who commented that:

> *'As the longer term-impact of people decisions taken during the downturn begin to be felt, the winners and losers of the war for talent are starting to reveal themselves. Organisations which continued to focus on investment and employee engagement are emerging as clear leaders. Those who continued to offer their employees new opportunities and invested in their people pipeline have a competitive advantage.'* (cited in *Employee Benefits*, 2009)

8 Developing a Strategic Approach to Decision Making

It is to be expected that UK employers today are running leaner organisations than they did in the 1980s and 1990s. To some extent, greater competition, both domestic and international, will have guaranteed this, along with some of the delayering brought in with new management philosophies and changes in IT. It follows that cutting staff in such an organisation usually means cutting capacity, and one would expect fewer cost cutting drives expressed as crude headcount reduction targets. Simply put, if everyone on the team is integral to providing the service or making the product, the option of riding out the downturn by doing more with less is not available. Given such a starting point, ill-conceived cost cutting will have a considerable impact on capacity. Instead, a strategic approach is called for, in which organisations look carefully and strategically at what operations are viable, add value, and have a future.

This was a key message emerging from the IES case studies. Any cost saving strategy outside of compulsory redundancy has to address the drivers of business performance, in order to make it effective in avoiding headcount reductions and this requires an organisational-wide perspective. It is necessary to focus on the long term rather than simply short-term fire fighting and maintaining a link between implementing reactionary measures to a fall in demand alongside normal business operating processes and strategy. It is advisable not to adopt a blanket set of measures, but those targeted on the cost pressures faced in different areas of the organisation; seeing issues from a corporate not business unit viewpoint, and not simply allowing narrow, sectional interests to prevail.

An organisation-wide strategy

Critical to a strategic approach is to avoid decisions taken by business units to suit their own parochial needs, and ensure that they reflect the overall business imperatives. A Deloitte survey found that during a recession companies must find cost savings that cut across organisational silos and suggest an '*enterprise-wide analysis of actionable spend (ie, costs that are within the company's control over the next 12 months) can help uncover new opportunities*' (Deloitte, 2008). This company-wide examination is considered valuable as:

> *'most managers and executives only have visibility to a narrow set of costs related to their day-to-day responsibilities. Seeing everything rolled up together can help a company put its existing cost-reduction initiatives into perspective, and help decision-makers understand the broader opportunity. It can also provide guidance and input on where the company should focus its efforts.'* (Deloitte, 2008)

At Jaguar Land Rover, the different priorities of separate business units were revealed when HR discussed potential savings with key individuals on the Board of Directors. In manufacturing, the most valued savings were to be achieved through ensuring labour mobility across different manufacturing sites, whilst in finance the key priority was about making changes and achieving savings in the company's pension scheme.

Protecting key skills

Forming a holistic and 'enterprise view' does not equate to making deep cuts across the board. Deloitte's report highlights the danger of cutting investments in business areas that are critical to the long-term strategy of the business, such as research and development and marketing. Cost saving in these areas can reduce the company's ability to capitalise on new demand when growth returns. Also in previous downturns vital skills, such as in IT, had been lost due to the use of crude slash and burn tactics without regard to protecting scarce capabilities or future needs.

This was foremost in the mind of Jaguar Land Rover who offered voluntary redundancies. To act as a safeguard on the talent volunteering for the programme, the board of directors had to sign off each application for voluntary redundancy or retirement, and any new hires over the last two years who were volunteering required the HR Director's sign-off to check they were not losing skills that they had recruited specifically to fill a skills gap. Also, amongst the company's white collar staff, the working week was increased by three hours from 37 hours to 40 hours with no additional pay. This was so staff could spend longer on product innovation and creative solutions that would help the company when the markets improved, resulting in an eight per cent increase in the salaried resource at no additional cost to the company.

Investment in training and redeployment

Investment in training or retraining is a contentious issue during periods when cost savings have to be found. Towers Perrin research (2009) showed 45 per cent of companies had cut back on training programmes during the recession, however studies of previous recessions has shown that under-investment in training can slow economic growth during subsequent recovery (Cox et al., 2009). A combination of IES research and a review of other sources of evidence identified types of employer approaches to workforce development termed 'oxen' and 'sheep' (ibid.).

The 'oxen' approach describes a core of employers with high skill level requirements that require investment over time, and they do everything possible to preserve long-term training plans during difficult economic times, especially for younger recent recruits such as graduates and apprentices. These businesses do not wish to lose the investment in talent already made (ibid., p.12). Norton Rose demonstrated this approach during the recession by continuing to take on new trainees, as they considered it short-sighted to stop this process as the legal practice would need to maintain a supply of junior lawyers for when the market improved. It did, however, also defer a proportion of new trainees for six to 12 months and provided deferral payments of up to £10,000 as an incentive to postpone their start date.

The 'sheep' employer approach finds making decisions about long-term plans difficult. This type of employer cuts back on training costs by reducing spending on external provision. More creative businesses bring training in-house or train up their own internal assessors or coaches (Cox et al., 2009, p.14). Many 'sheep' employers are heavily focused on maintaining their existing business and their levels of engagement with other means of reducing labour costs, such as reducing working time or pay, are likely to depend on awareness, capability and capacity to implement these rather more sophisticated HR policies, and selection of these is likely to be varied and driven by convenience and circumstance rather than carefully deliberated (ibid., p.14).

IES research for the Learning and Skills Improvement Service found that a number of FE colleges have fostered links with employers in order to reduce the chances of redundancy through workforce development. This involved putting employees through training in business improvement techniques during lay-off periods to improve production efficiency. Other colleges have trained workers for redeployment, either in their current organisation or for the open labour market, prior to redundancy. This process relies on a high level of trust between employers and training providers, as in many cases job losses are not public knowledge at the time of training programmes (Cox et al., 2009, p.14).

Redeployment is also a useful way to retain talent if parts of the business are still doing well. But there are challenges to be overcome and not all staff will adapt well to new circumstances. The transfer of spare resources from one part of a business to another did not really occur sufficiently in the last recession but if the workforce truly is more skilled and adaptable than in the past, the feasibility of this option will increase. Our case study at the BBC showed 'at risk' staff being successfully redeployed through a method termed 'bumping'. This was employed amongst the lower-graded staff and provided an opportunity for an employee to move into the role of someone who had requested to leave on redundancy terms. Significant provision of support upon application and entry into their new roles was provided. Secondments out to other organisations – as well as reducing payroll whilst retaining a link to talented staff who might be valuable again when conditions improve, can also help to forge closer partnerships, and lead to other business benefits.

9 Fostering a 'Shared Destiny'

In some organisations, employee engagement is seen very much from an organisational perspective and may lack the mutuality that we argued should be part of how it is managed. An important theme, therefore, emerging from the IES case studies was a deliberate attempt to create a sense of a 'shared destiny' in facing business problems. For example, cost saving measures were often launched amongst the most senior staff before launching to staff on lower grades. Salary freezes were applied to both employees and executives, causing Towers Perrin to reflect on *'companies' increased sensitivity to setting a good example at the top of the house and living the "shared destiny" theme'* (Towers Perrin, 2009, p.3). This naturally makes a lot of sense, in that their research with employees showed that staff tend to be more engaged when they feel leaders are 'with them' in meeting challenges (ibid.). It is also consistent with the points we made earlier about good communication, and processes being perceived as fairly designed and executed. *'There won't be any (executive) bonus, I certainly won't be getting anything over and above what my staff enjoy'* was how former chief executive Sir Stuart Rose chose to manage and communicate the pay approach in a tough climate in his last year at Marks and Spencer (IES, 2010).

Employee involvement

Another way of fostering a 'shared destiny' approach is by involving employees in making the tough decisions over how to make savings. Just under half of respondents to the Towers Perrin research actively brought their workforce into the problem-solving process during the downturn (ibid.), in keeping with the trend for increasing employee involvement in businesses processes, which can drive engagement and also build a two-way collaborative working relationship. However, during the last quarter of 2009 fewer than half of employees felt fully or fairly well informed about what was happening in their organisation, and this was linked to a decrease in job satisfaction across all organisation sizes and sectors (CIPD, 2010).

It is seen as important that employees understand and are kept informed about both the current and long-term directions of their company, in order to remain engaged, and staff should be *'invited to experiment and encouraged to find new and better ways of working within a highly disciplined cost competitive approach'* (Polet, 2009). The benefits of involving employees in decisions in organisations whilst also developing talent during difficult times, were summarized by Polet, the CEO of the House of Gucci:

> *'Challenging times are the perfect opportunity for high performers to shine. These individuals are highly motivated and must be challenged to stay engaged. Providing them with a tough issue to tackle, expanded responsibility, or a position of greater authority will give them what they seek while simultaneously benefiting the organization. Involving top performers in problem solving gives them a greater sense of ownership and enhances their commitment and retention.'* (Polet, 2009)

Employee involvement is also an effective way to identify inefficient work practices. The ILO suggests companies should consider awarding ideas that save expenditures, and make cost saving everyone's business (Ulrich et al., 2009):

> *'Improving employee involvement in workplace decision making is usually connected to lower employee turnover, improved productivity and enhanced commercial outcomes, including sales growth, customer satisfaction, and total shareholder return.'* (Kaplan and Norton, 2009, cited in Ulrich et al., 2009, p.15)

Jaguar Land Rover, for example, following a collapse in product demand, consulted its employees over potential savings; presenting them with a menu of options worth over twice the level of reduction required. This way employees were involved in the process of determining which terms and conditions to concede. However, it remains to be seen whether, if eventually further cuts still have to be made, these engaging approaches are seen as simply delaying an inevitable headcount reduction.

Indeed, even when actions are taken by employers in good faith that they will prevent job loss, it can be easy to lose the trust of employees when implementing cost reduction strategies that directly impact the workforce, if measures do not stretch far enough. After initially implementing cost saving measures, if a company has to find further savings as cost pressures deepen or fail to relent, employers may find they must once again return to their employees Oliver Twist-like to ask for more. This has the potential to cause resentment among employees who have already made concessions in good faith that changes will stretch far enough to guarantee their continued safe employment. Once employees have experienced a change in terms and conditions and further savings are still required, the relationship between employer and employee can become one of mistrust and anxiety and a 'fundamental renewal of the relationship between firm and worker may be required' (Frauenheim, 2009). Companies will be forced to look at the employment contract again as companies increase demands of employees, asking for more whilst giving back less in return (ibid).

The perception of pay fairness

As we discussed earlier, a thought to bear in mind during these difficult times, when companies are trying to reduce workforce costs, is that studies show that perceived fairness is a much stronger motivator of staff than the absolute level of pay received. Recent surveys suggest that one of the biggest barriers to higher levels of employee engagement is that only around one-third of staff feel that their pay is managed fairly at present (Brown, 2010, cited in Garrow, 2010). This perception of fairness is an important theme emerging from companies' experiences of the recession.

Leaving aside, for the moment, reward strategies in organisations where payroll cuts were necessary, the importance of fairness in employee motivation and HR management is receiving more attention; particularly following the investigations into the financial crisis and debate around the role of City incentive structures. This has been recognised by a number of tone-savvy chief executives voluntarily foregoing bonuses, and it is likely more HR and reward directors and remuneration committee chairs will be further compelled to address internal pay relativities and fairness, particularly when their workforces have made concessions during the difficult times. The Guardian's recent series on executive pay exposed the issue of internal pay relativities, revealing that the average ratio of chief executive-to-employee pay has risen from 47 to 128 over the past 10 years (Kollewe, 2009). The banker John Pierpont Morgan, founder of JP Morgan, once said that no executive should earn more than 20 times those at the bottom of the organisation. However, among FTSE-100 companies, only two chief executives met this requirement in 2009 (Seager et al., 2009).

It was recommended by the National Association of Pension Funds good practice guidance back in 2004 that companies publish in their annual report, executive directors' total compensation as a multiple of average employee compensation in the firm. And a private members' bill introduced in the House of Lords by Lord Gavron in 2009 proposed something similar on a compulsory basis, although using the lowest decile of employee pay rather than the average in the calculation. A number of UK trade unions have also been arguing for a statutory cap of 10 to 12 times average pay on this basis. And it was announced in the June 2010 Budget that Will Hutton is to draw up plans to ensure that those at the top of public sector organisations are paid no more than 20 times the salaries of those at the bottom.

The commissioning of Will Hutton's Review of Fair Pay in the public sector suggests that pay fairness matters and many research studies have shown that people assess the adequacy of their pay relative to others. For example, 'the equity rule' associated with distributive justice states that rewards should be 'distributed in accordance with contribution' (Dicke et al., 2007, p.18) and research has shown that distributive justice is strongly correlated to pay satisfaction, which is also a driver of employee engagement (ibid.). Pay arrangements that are seen to be fair and transparent are viewed by employees as more important than actual pay (Armstrong et al., 2005, p.8), which illustrates the importance of demonstrating procedural justice during the times of business hardship.

10 What About When the Good Times Return?

After consideration of the five main messages emerging from this research, we are left questioning what will happen when activity levels and demand returns to normal levels. Businesses may have implemented creative solutions to changes in demand, but these solutions were based on current and forecasted pressures and market uncertainty, and the impact of the downturn may result in companies having to make further changes.

1. The focus on pay

What will happen when the economy improves? Will we, as many commentators forecast, face a difficult employee relations climate as unions and employees try to win back some of the financial concessions made during the recession? And if the economy does not pick up quickly, how long will employees tolerate wage restraint? Over three-quarters of employees who had their pay cut during the recession have still not had their pay levels restored. However, research shows that employees are optimistic with over-three quarters (76 per cent) of those who took a pay cut still hopeful that their full pay will be restored over the coming months, although only 15 per cent have been reassured that this would definitely the case (Badenoch and Clark, 2010).

The Bank of England suggested that the outlook for employment will partly depend on the developments in the real take-home pay of employees. Employees may indeed have become more confident in the recovery and be less willing to accept further squeezes in real wages, causing them to seek higher pay settlements this year. This could, in turn, cause companies to reduce headcount in order to contain their labour costs (Bank of England, 2010).

2. Flexibility

The enforced flexible working patterns during the recession leads us to question whether these will show more employers the power of flexible working and convince them that there are business benefits as well as benefits for staff, moving from becoming solely the preserve of the working mother to them becoming more acceptable and widespread. Will this in turn lead to a more fundamental shift towards greater flexibility in working patterns?

And what benefits will organisations have found from their creative solutions to their changing circumstances? Will they recognise that flexibility can have productivity and other business benefits even in the boom times, and can generate mutually beneficial arrangements for both employer and employee? (Garrow, 2010)

These business benefits have long been known, but have not always convinced people. Employers who implement flexible working successfully, so that it matches the business need as well as the individual's request, have reported bottom line benefits in terms of reduced levels and costs associated with sickness absence, more returners from maternity leave, greater productivity and engagement and an ability to retain the employees they want to retain without necessarily having to increase financial incentives or rewards (Garrow, 2010).

Research conducted recently, as we emerge from recession, showed the use of flexible working is still considered an influential benefit in encouraging employees to stay with their existing employer, in the absence of pay incentives. In July 2010 still over one-hird (38 per cent) of employees were being offered flexible working hours and almost one-fifth are being offered additional leave (17 per cent) (Badenoch and Clark, 2010).

3. Attention to processes

When companies attempt to reduce workforce costs, it is the perceived fairness of any changes that is a much stronger motivator of employees than the actual outcomes. This is particularly true with consideration of changes in rewards. By executing any difficult decisions in a demonstrably fair and even-handed way, through fostering mutuality between managers and employees, not only helps to cement the bonds of trust in an organisation but engages employees during the period of change.

Whilst the pay and recruitment freezes that have been implemented during the recession should disappear, the CBI argue that the 'spirit of flexibility and the willingness of many staff to engage positively with employers … will hopefully be a more permanent benefit of the UK economy' (CBI, 2009). It however remains to be seen whether this new era of communication and engagement will continue as growth returns.

Hoarding talent during the downturn and protecting employee loyalty may offer benefits when growth returns and it could be considered that companies that retain their skilled labour are not exposed in the same way as firms that reduce headcount. Remaining an attractive employer proposition also remains valuable, even when cuts need to be made across an organisation. In times of recovery will the benefits of engaging and communicating with employees continue to be realised?

4. Strategic decision making

The times of economic change showed how important it was for organisations to avoid siloism and consider the whole organisational impact of any actions, avoiding crude slash and burn tactics and narrow perspectives around cost savings. It is necessary to encourage an understanding of the broader opportunities through intelligent decision-making that ensures companies will be well-placed in the future and that any change is sustainable and produces returns.

Evidence has shown that the strategies implemented during the recession are having longer-term influences on organisations. Only less than a quarter (22 per cent) of respondents to the Towers Perrin survey did not plan on maintaining their cost reduction programmes when the economy improved, with the majority expecting to keep at least some of their efforts in place (Towers Perrin, 2009). The decisions over what programmes would be continued would be made once the financial impact of the approaches became more apparent (ibid.). And a Deloitte study of 70 Fortune 500 companies found that more than two-thirds have maintained an ongoing focus on cost improvement, rather than simply focusing on this during the difficult times (Deloitte, 2008).

Organisations may have been genuine in seeking to avoid compulsory redundancies by employing these creative solutions to cost saving, but after initially implementing the more creative solutions rather than immediate headcount reductions, will organisations revert back to the tried and tested approaches if the market demands it, receiving little credit for their attempts to avoid redundancies at earlier stages? And to employees, will change have felt like 'salami slicing' – just what organisations might have hoped to avoid?

5. Shared destiny

Retaining employee trust in a volatile market is challenging, and requires leaders to establish genuine collaborative relationships with employees, demonstrated in this recession through managers enduring some of the privations of the downturn alongside their staff, and involving employees in choosing part of the solution to organisational problems. Will the benefits of involving employees and fostering participative leadership be realised, and will these investments continue to be made?

Moreover, will the sense of togetherness in a crisis that led executives to refuse their bonuses persist when the good times return? Almost certainly not, is the answer. So will there be meaningful discussions in companies about pay equity that arise from considering how the recession arose and how the company survived it?

Final lessons

Any focus on cost improvement should also take into account the lessons we can glean from the case studies. In summary, any creative cost-reduction strategy, outside of headcount reductions should:

- be kept simple
- be flexible for both the employer and employee
- be operationally feasible
- focus on the 'key enablers' of business performance
- be a collaborative, one-firm approach
- be seen to be a business initiative rather than another HR strategy
- involve employees and ensure continued two-way communication
- and enable transparent, open and honest relationships with employees.

Appendix: Case Studies

Case study: Jaguar Land Rover

Background

In autumn 2008, Jaguar Land Rover (JLR) experienced the shock of the economic downturn as demand for products collapsed almost overnight, in line with the experience of other premium bands. Because of the relatively limited use of agency staff and the requirement for a highly skilled workforce, there were few buffers of flexibility available to the business when demand fell.

The initiative

In order to cope with the fall in demand, JLR firstly applied four core cost savings measures: it turned to its voluntary redundancy programmes; released agency and contractor personnel; implemented non-production days and single shifting; and operated on minimal overtime. Following a requirement to make further savings, management presented the trade unions with a menu of changes worth £180 million and unions were told if they could agree on £70 million worth of savings from the menu, then JLR would in return give a commitment that there would be no compulsory redundancies. The final agreement covers some 14,000 UK-based employees and includes both unionised blue-collar and white-collar employees. Management employees are non-unionised, but an almost identical agreement was later reached with the Information and Consultation Forum (ICF)

Implementation

Some 1,000 agency staff were employed on the shop floor due to the production of the new Jaguar XF model, and within the white collar workforce, agency staff were mostly employed in product development, IT and purchasing departments. In order to generate savings, JLR firstly looked to lose as many agency staff as possible. All blue-collar agency workers were removed and JLR succeeded in reducing agency headcount from 1,800 in mid-2008 to around 800 agency workers by October 2009.

JLR also began to implement headcount reductions through offering voluntary redundancies and early retirements. These methods are commonplace in the motor industry due to advancing technology reducing the demand for labour. As voluntary redundancies were seen as a drain on cash, and the defined benefit pension scheme required a lot of cash up front, in order to reduce labour costs, JLR firstly offered pensions from age 60 years to encourage people to take early retirement. This was then reduced to 58 years, and a voluntary redundancy scheme was then invoked that offered a flat rate payment, for all staff, of nine months pay without reference to length of service. There was a core age group of 35 to 40 years who were predicted to take up this opportunity, and the company was satisfied with the take-up during the early stages of the recession.

To act as a safeguard on the staff they were losing, the appropriate Board Director had to sign off each application for voluntary redundancy or retirement, and any new hires over the last two years who were volunteering for the programme required the HR Director's sign-off to check they were not losing skills that they had recruited specifically to fill a skills gap. The company lost 2,500 employees through these methods, half of which were agency staff, and in total accounted for 15 per cent of the workforce.

The implementation of non-production days had resulted in staff being sent home on full basic pay, sent on training courses, or staff were required to participate in community work. In early 2009, blue-collar staff were working day shifts only with minimal overtime, and the unions recognised a 30-40 per cent drop in members' incomes.

JLR only continued with critical skills hiring during this time. Professionals they continued to hire included those in legal, tax, HR and treasury fields. Over the year to October 2009 JLR hired 100 people, compared with 400 over the same period a year earlier. The company, however, intends on recruiting 70-80 new graduates in the next financial year.

At the end of 2008 and during early 2009, JLR realised the recession was going to be deeper than predicted and calculated it still needed to reduce headcount by a further 1,300 people. In January 2009, changes to management compensation were also announced. It was declared that: there would be no bonus payments paid to management; all management pay increases were to be cancelled for 2009; a promotion freeze for all management positions was to be implemented until at least 1 May 2009; there was to be elimination of up to 300 management positions globally (but mainly in the UK) and a voluntary redundancy programme would be operated, followed by a compulsory redundancy scheme if necessary.

In the history of JLR, compulsory redundancies had never been made. It anticipated there would be insufficient volunteers for the redundancy programme, in which case compulsory redundancies would need to be made. Despite all these efforts, some 300 non-management white collar staff and 1,000 production workers were still surplus to demand. The 1,000 surplus production workers were split between 500 at the Solihull site, some 300 at Halewood and 200 employees at Castle Bromwich/Browns Lane.

Projected over two years, the company needed to save £70 million in labour costs including pension, pay and benefits. JLR approached the trade unions in early 2009 through a meeting that the CEO and the entire Board of Directors attended. All unions were present. Management communicated to the unions that sales were down 30-40 per cent year on year and this was not a short-term problem. Therefore the unions were presented with a target of £70 million of savings to find.

The potential savings proposed by management included reduction in pay or benefits and some long-term structural changes and the entire menu of changes presented added up to a £180 million saving. If the unions could agree on £70 million worth of savings from this menu, then JLR would give a commitment that there would be no compulsory redundancies.

The HR team produced the menu of options and drove the idea forward, with support from the finance department, who approved the financial estimates attached to each of the savings. HR spoke to key individuals on the board of directors about what would be the 'key enablers' in the business; for example, in manufacturing the key enabler was ensuring labour mobility across the different manufacturing sites; in finance it was to make changes and savings in the pension scheme.

The unions came back willing to trade some elements of their package in return for the guarantee of no compulsory redundancies. There was disagreement among members about which elements of their existing terms and conditions to forfeit. Some local convenors wanted to protect earnings and still retain a voluntary redundancy programme and were willing to trade benefits such as maternity pay and paternity pay, but National Officers disagreed, wanting to protect these long-held benefits.

Unions were aware they had to achieve the savings as in the circumstances, due to the low level of demand in the marketplace, a strike would simply serve to save the company the money it needed. The company could also still implement compulsory redundancies if they became necessary. JLR wanted to maintain a good relationship with employees as it is a cyclical industry and employees will always remember how they were treated in the bad times. These reputational issues were an important consideration for the company.

Whilst the unions were taking a more long-term view of the savings that could be made – looking to long-term structural changes that could be applied over five to 10 years, the company required savings that would generate cash in the short term.

It took two months to negotiate the savings with the unions, with the unions conceding to £67.8 million worth of savings under what was termed the 'Framework Agreement'. These savings were achieved through:

- a pay freeze effective from November 2009, worth £11.7 million
- the white collar staff working week was increased by three hours from 37 hours to 40 hours with no additional pay. This was so staff could spend longer on product innovation and creative solutions that would help the company when markets improved. This resulted in an eight per cent increase in the salaried resource and represented a cost saving of £13 million.
- a joint union-company programme around training was also cancelled as JLR did not want to be spending funds on unrelated work programmes at this time. This represented a saving of £2.8 million.
- The contribution rate on the pension salary sacrifice was increased from six per cent to seven per cent and represented savings of £4 million. Under the Framework Agreement, JLR introduced salary sacrifice on pensions in September 2009. Only 200 (three per cent of population) opted out of this. The company view this as a sign that people are complying with the spirit of the programme.
- The bonus awarded to non-management staff worth £2,000 a year was cancelled, which saved £4.5 million.
- The union agreed that agency labour at Halewood could be paid at 80 per cent of JLR permanent employees' pay, saving £5 million
- For blue-collar workers a 2.8 per cent pay cut was implemented through the 37-hour week being reduced to 35 hours Monday to Thursday, with the plant being shut down on Fridays. For this concession staff were paid for 36 hours a week. This represented a saving of £5 million.
- Full mobility across the West Midlands sites was also negotiated. This saved £15.8 million, as it stopped new agency staff being hired where there was demand for skills. Today, there are more than 400 'Solihull Land Rover workers' placed at the Castle Bromwich Jaguar plant. Previously, Castle Bromwich plant would have had to hire externally.

Communication

The union recommended acceptance of the Framework Agreement to its members and the Chief Executive wrote to all staff at their home addresses communicating the package of savings. Some 70 per cent of members voted in favour of the savings. In order to discuss the menu of options the company provided the union with time and space to hold briefings for members. In return for acceptance, the company committed to no compulsory redundancies over the next two years. If they had to go back on this deal and make compulsory redundancies, all terms and conditions would revert back to the status quo.

For management employees, the Information and Consultation Forum (ICF) was used to communicate the changes. HR had to assist and train the ICF representatives as this was the first large scale issue they were required to consult on within JLR since the Forum was created. HR set up intranet sites and employees could ask questions on either a confidential or identified basis, and answers were posted on a virtual notice board. Webcasts were also held to address the questions.

The outcome

Of the management population, JLR still had to make 50 compulsory redundancies; some 100 staff volunteered to be downgraded to non-management positions as an alternative to redundancy and some 100 took voluntary redundancy.

An engagement survey was sent out to the white collar population and a 'Pulse satisfaction survey' was run in detail in September 2009 with an interim one in June. The June 2009 survey showed the second best result since the surveys began for employee satisfaction, and was only down two per cent on the year earlier. Based on general morale, the management view is that staff are pleased JLR did not resort to the 'nuclear option' and considered and implemented the alternatives to compulsory redundancies, to keep these as minimal as possible.

In January to March 2009 JLR entered into this programme in good faith. But as the recession proved to be deep and lasting, more needs to be done. This presents issues with going back to the unions and asking for further savings. This action has the potential to be resented as employees have already made concessions. The unions will question how they can again achieve agreement from their members on further actions. JLR is having further discussions on additional actions they need to take to make further savings, however it could never make solid guarantees that the programme would last for two years without having to review the situation. At the end of the two years all original terms and conditions are to be reinstated.

Case study: KPMG

Background

In order to respond to changes in activity levels during the recession, achieve flexibility in its workforce costs and retain its investment in talent, KPMG asked staff to volunteer to temporarily change their terms and conditions of employment through a programme called 'Flexible Futures'. The programme, implemented in January 2009, provides the opportunity to reduce the paid working week, or allow staff sabbaticals when the downturn changes demand in the KPMG markets.

The Initiative

The 'Flexible Futures' programme was launched by KPMG in January 2009 and is due to run until September 2010. The scheme involves two voluntary options for staff:

- one day off a week unpaid
- between two to 12 weeks off work at one-third of pay; at four weeks' notice.

The programme provides a guarantee that there will only be a maximum 20 per cent salary reduction for employees if they sign up to the scheme. For some staff the cut in annual salary would be less at 10 per cent, but the average across all employees was a 15 per cent reduction.

Employees could opt to take one or both options. The second option was the most popular, as employees could fit the time release in blocks to fit around school summer holidays or childcare. Employees retained their benefits and there was not an option to change benefits provision. Some 83 per cent of the workforce signed up to the scheme across 10,000 employees. In December 2009 employees could opt out of the scheme and new joiners could opt in from the same date.

Implementation

KPMG Human Resources division designed this initiative, in collaboration with the Employee Business Forum and the leadership, after considering what would be the best course of action for the business during the recession. The company wanted to consider options that would give the business flexibility but that were also operationally feasible. It wanted to protect its investment in talent, demonstrate commitment to its Employer of Choice agenda and yet have the flexibility in its cost base to adjust to the volatile demands of the market. It did not want to impose avoidable headcount reductions.

A solution was needed that was simple to implement and to manage and the company did not want to present a myriad of options to employees. The flexible working options introduced had not been used in previous times of economic downturn at KPMG, and it had learnt from experience following the crash of the dot-com bubble that it takes around two years to recruit adequately again once the market improves, after losing talent during difficult economic times. This experience allowed the business to apply hindsight to how to deal more effectively with the downturn this time around.

The Flexible Futures programme was applied to all UK Partners and employees, as KPMG wanted the scheme to be seen as a collaborative, one-firm approach. The scheme was launched to the UK Partners in advance of other employees and received more than a 90 per cent sign up amongst this group.

The number of employees invoked onto the programme depended on job level and grade. It was left to the discretion of individual business units to invoke the schemes practice where necessary and ensure utilisation was maintained during the downturn in work. The scheme is flexible and different parts of the business, such as Tax and Central Services, have chosen to invoke its practice at different times to suit workloads.

The process was launched in the second week of January 2009 and it ran for three weeks. It became effective from 1 March 2009 for all staff. Throughout the launch, HR reported back to senior management weekly and then daily on the sign-up rate. There was a 66 per cent sign-up within the first two days of the launch and this increased to 83 per cent.

For employees choosing the sabbatical option, the company requested a minimum block of two weeks absence for the purposes of making the administrative process worthwhile. Some employees have marked only two weeks as use of Flexible Futures but wrapped the time around their annual leave to extend the period of absence.

Employees have spent their time off on various projects, free to spend their flexible time as they please. Examples include: training for the marathon; childcare; study or charitable pursuits. If employees wanted to take second employment during their time off this had to be signed off by the KPMG Ethics division.

Communication

The launch of the Flexible Futures programme was led by the UK Head of People and Chief Operations Officer. The initiative had received senior buy-in and support from the Executive Committee, but the majority of communications on the programme were heavily directed by HR. Posters and webcasts were used to communicate the scheme to employees and a top-down to functional level approach was used, with Performance Management Leaders (PMLs) explaining the scheme to their employees. PMLs are accountable for performance management and employee engagement at KPMG. Trust was perceived as having vital importance in ensuring the success of the scheme, and it is thought such high levels of sign up to the scheme would not have been possible if staff did not have trust in their PMLs. Units entered Flexible Futures jointly as a team with the majority of team members signing up for the scheme together.

During the early stages of the scheme, FAQs were addressed on the intranet surrounding issues such as: the impact of signing up to the scheme on pensions; the treatment of salary sacrifice; the impact on visa holders; maternity leave; mortgage references; performance management merit ratings and promotion; and the impact on bonuses.

KPMG launched a questionnaire to those invoked and this showed that some employees did not understand why they were being invoked and others were not. The business took on board this feedback and ensured there was a greater level of understanding on why individuals may have been invoked. Once employees had signed up to the scheme, some were invoked on an involuntary basis, when the department required the flexibility. In some divisions the majority of staff have been invoked, whilst some applications from employees who want to invoke have been declined due to client demands.

Feedback from employees early on in implementation showed that staff had a preference for more employees to be invoked through Flexible Futures but each for less time. Therefore, throughout the duration of the scheme, this preference has been met where possible.

HR circulates a monthly report to all staff, announcing where the scheme has been invoked, and future plans. There is also a link provided to the KPMG CSR website to encourage staff to take up charitable work during their time off.

Externally, the scheme received a huge amount of interest from other businesses, and there has been strong demand for conference addresses. The national press picked up on its implementation and the company subsequently issued press releases. There was a positive initial employee reaction, it was regarded as a good solution to the changing market, and demonstrated that the company remained in control during a volatile period.

The outcome

The scheme is also seen as positive in terms of achieving work-life balance. Employees who have understood why Flexible Futures has been implemented in their division, have expressed a desire to stay in the scheme.

The cost savings achieved through the scheme are measured every month, and there have been improvements in utilisation in the areas that have invoked the scheme.

There has also been an increase in employees signing up to normal flexible working options. The use of 'glide time' (working 8am to 4pm or 10am to 6pm) has increased. Whilst the working pattern of employees on the Flexible Futures programme is controlled by the business, when the scheme ends in September 2010, KPMG predict more employees may sign up to its flexible working patterns.

The company reported that it would repeat this scheme if there was a solid business need, but reflected that they would be more candid around the fact that not all areas of the business would be invoked to make use of the scheme. For some employees they were pleased they were not invoked, for others they were disappointed. KPMG, however, currently have no intention of beginning the process again when this term ends in September 2010. Some compulsory redundancies have been made despite the implementation of Flexible Futures, but these were attributed to strategic reasons, such as business restructures due to changes in the marketplace, where there has been a sustained fall in workload rather than a failure of the Flexible Futures scheme.

There is still concern about the crash in the financial services market. All organisations made redundancies in the last recession, but as Kate Holt, UK Chief Operating Officer – People Function at KMPG said: 'this is a more innovative way to weather the storm and we will be better placed once growth returns'.

Case study: Norton Rose LLP

Background

Norton Rose, an international legal practice, voted Law Firm of the Year in 2009, asked employees to change their terms and conditions of employment for the financial year running from 1 May 2009 to 30 April 2010. This gave the legal practice the opportunity to increase the flexibility of their workforce during the recession, eliminate the need to make redundancies, and make cost savings through a reduction in the paybill.

The initiative

Staff were offered a sabbatical of up to 12 weeks at 30 per cent of pay or the option of working a four-day week at 85 per cent of salary. Salary deductions were spread over six months to reduce the impact of the loss in salary. All employees across the business were included in the initiative, covering some 1,100 staff in London, where the programme was launched, and then subsequently extended to the international offices. The initiative was entitled 'Flex'.

Implementation

The methodology was to 'keep it simple'. The company did not want to introduce a whole range of options for employees and looked outside the industry towards the KPMG experience of the application of their similar 'Flexible Futures' programme. Redundancies were an option to the legal practice and as the Head of HR at Norton Rose, Lak Purewal, notes: 'law firms are not always good at looking at creative ways to manage HR'.

The company wanted to retain talent whilst avoiding the enormous hidden cost in redundancies and avoid 'survivor syndrome', because it wanted to be an organisation that treated its employees fairly during the difficult times.

In order to launch the Flex programme, an online response form was posted on the intranet to determine which, and how many, employees were signing up for the programme. Employees had to voluntarily but actively respond to the request online and also sign a written copy of willingness to change their terms and conditions.

The company was aiming for three-quarters of staff to sign up to the programme, but in total 96 per cent of staff agreed. Many of those that did not sign up reported personal financial constraints that would make it difficult to agree to a reduction in salary. There were no quotas placed on the proportions within each employee population that should take up the options. The organisation simply had to ensure there was not an oversupply of resource, for example, if a significantly larger proportion of the professionals in the legal teams opted for the change in terms and conditions compared to the number of secretaries, there would be an oversupply of secretarial staff. Whilst all staff could express a preference on whether they preferred a sabbatical or a four-day week, control was passed to the employer over which Flex option employees could take up. Where possible, preferences were accommodated.

Flex was applied fairly across the organisation and controlled through the basis of the workload of the team. If chargeable hours were above a certain level within each team then Flex would not be applied to that team. If however, chargeable hours were below a certain threshold, there was capacity for 'Flex' to be applied. Team leaders made the proposal to implement Flex if chargeable hours reduce, and the 'Flex Committee' then considered the proposal and have the final decision on its acceptance or rejection.

The Flex Committee consisted of the Chief Executive, the Chief Operations Officer, Global Heads of Banking and Corporate Finance, the London Managing Partner, the Global Director of Talent and the Head of Human Resources. The Committee met once a week to consider Flex proposals, share feedback from employees and consider issued raised by staff. The management of the programme was time consuming but worthwhile, with all of the senior team dedicating time each week to its efficient implementation. At the end of 2009/10 financial year, Flex will be a project of 1.5 years duration from its inception.

The key to the success of the programme is that the application of the scheme had to be flexible for the employer and the employee. Employees could 'bank' days if they had to revert to working five days a week when client pressures demand the extra resource. A scheme of this nature could not be applied rigidly and it relied on the goodwill of the employer and employee to be flexible in the use of Flex days to suit the workload.

Some 70 per cent of staff in the Flex programme worked a four-day week, as opposed to the sabbatical option. One weeks' notice was given to terminate the four-day week if workloads required it, so staff can resume work quickly. This same termination period was not applied to sabbaticals as the nature of them means only in exceptional circumstances would those on sabbatical be asked to return at short notice, as often employees choosing this option will have been spending time abroad. No restrictions on how the sabbatical had to be spent were imposed by the company. Sabbaticals were a less flexible option for this reason, but they still provided significant cost savings.

A proportion of new trainees were also deferred for six to 12 months during this time and given deferral payments of up to £10,000 as an incentive to postpone their start date. However, some trainees were still taken on as planned. It was considered to be short-sighted not to take on trainees as the legal practice needs to maintain the supply of junior lawyers for when the market improves.

Communication

Communication has played a vitally important role in the rollout of the Flex programme. There were employee forums for each employee population; solicitors, business services staff and secretarial staff. The initiative was discussed within each of the forums and was positively received.

It was necessary to ensure buy-in amongst employees. An intranet site was designed, which outlined the policies and how they would work in practice, alongside a Q&A document addressing employees' particular concerns. Employees would submit queries to HR and these would be addressed in the Q&A document. HR clinics were also set up so employees could have one-to-ones with a member of the HR team in order to address their concerns in confidence.

A video message from the CEO was also posted on the intranet. Employees had three weeks to sign up to the programme, and HR could electronically track who and how many employees were signing up over this three-week period. This was regarded as a valuable tool, as it meant the potential success of the initiative could be tracked over that three week period. The legal practice could also focus its communications on the populations that were most concerned about the programme and therefore the tracking proved a useful and powerful tool.

The legal practice engaged with the press proactively and regularly on the implementation of this programme, and received significant media coverage in the legal, national and human resources press. The CEO conducted initial media interviews because it was a business initiative and not just an HR initiative. The external exposure the firm has received around this programme has been a positive consequence for the Norton Rose brand. It is considered that graduates when choosing their preferred employer will consider that Norton Rose is an attractive employer proposition. For this recession, this initiative was considered a suitable alternative to redundancies for Norton Rose.

The outcome

Norton Rose has placed particular emphasis on protecting employee loyalty, as when the market picks up all law firms will attempt to recruit largely from the same talent pool, but as Norton Rose has not shed its talent during the recession through the application of Flex, it considers that it will not be exposed in the same way as other firms that have reduced headcount. Client secondments have also helped Norton Rose reduce costs, and these are considered beneficial for the business as they increase the flexibility of the workforce and improve client relationships and understanding of their business.

The implementation of the flexible working scheme has generated a significant amount of goodwill among employees. In July 2009, after the implementation of Flex, it was reported in the publication *Legal Week* that some 85 per cent of employees believed the way Norton Rose had managed redundancies had enhanced the reputation of the company and brand. It is considered that these external achievements provide objective validity of the success of the programme. In the *Legal Week* survey, employees awarded Norton Rose 8.6 (out of 10), some two points ahead of the average for 'how valued they feel'. Fee-earners also similarly hailed the firms' culture, the openness of its communications and their partnership prospects.

The legal practice has achieved cost savings through the scheme's application and saved in the region of 100 jobs. It has received positive anecdotal feedback, but has not yet done an internal employee attitude survey. External verification has been seen in the marketplace and it has been widely recognised externally in the media.

By November 2009, it had started to put fee earners in some departments back onto full hours as market conditions showed signs of improvement. The number of lawyers working reduced hours fell by up to 15 per cent since the use of the scheme peaked in Summer 2009, with many of those returning to full-time hours sitting within the corporate and banking departments.

Although the practice had the option to apply Flex until 30 April 2010, Norton Rose stopped the scheme for all its teams and offices on 29 January 2010 on the basis of better recent work activity, giving certainty to its staff and applying the scheme as lightly as possible

Case study: BBC

Background

In October 2007, the BBC announced its 'Creative Futures' plan – a blueprint designed to deliver greater value to audiences over the following five years and build upon opportunities created by new digital technologies. As part of this blueprint, there was a need to reprioritise spending in order to fund the Creative Futures vision, and as the recession took hold and economic pressures increased within the BBC, it embarked on programmes of redeployment and paybill control.

The initiative

From August 2009, salaries over £60,000 were frozen and senior managers' pay was frozen for two years, with executive salaries frozen for four years. Bonuses were frozen for all staff, with the bonus freeze for grade staff guaranteed to be reviewed each year. Alongside this paybill control, a large-scale redeployment exercise was initiated as an attempt to save 1,500 jobs at threat of redundancy, following the budgetary pressures and efficiencies demanded by Creative Futures. This cultivated a renewed focus on skills and developing talent within the BBC rather than simply reducing headcount.

Implementation

Management made a commitment to maximize the redeployment of displaced staff into other jobs within the BBC. Within each business unit, HR and line managers support redeployees in finding alternative positions. In addition, some business units have redeployment committees to formally review and proactively manage redeployment activity. However, the onus is on staff themselves to apply for any suitable posts advertised internally. A method called 'bumping' is employed amongst the lower-graded employees in which if an employee requests to leave on redundancy terms, someone else at risk of redundancy is moved to their job if they are suitable, with training provided for those accepting the new roles. In the Journalism business unit, some 27 per cent of job reductions have been managed through redeployment. Most redeployments are local; for example, where one department in a business unit is reducing staff it will attempt to redeploy staff into another department within the unit.

BBC News reorganised its News Division into one multi-media newsroom, which combines TV, radio and online journalism. This reorganisation has increased editorial co-ordination and increased efficiency. Journalism is now more dynamic as it no longer specialises in a singular media platform, and it ensures work is not reproduced across the different types of media.

Those employees at risk of redundancy are given priority consideration for vacant posts in advance of any other internal or external candidates, providing they meet the requirements of the job. However, final selection for the job is dependent on demonstration of the skills, knowledge and competencies appropriate for the role. Staff retain their existing scale/grade and salary during redeployment. Staff do not have to accept the offer of alternative employment, however, staff who refuse an offer of 'suitable alternative employment' lose their entitlement to redundancy payments. Redeployed employees have a statutory right to a trial period of four weeks in the new role, before making a decision about the offer.

A culture change is considered necessary within the BBC in terms of attitudes towards redeployees. More focused outplacement support is being offered to encourage greater internal networking by redeployees, empowering them to find new opportunities. Divisions are being encouraged to offer placements that have the potential to end in a permanent position. This allows the manager to review the performance of the employee as well as enabling the employee to learn about the available role within the new department.

Further up the grading structure, there is a commitment that each time a senior manager leaves the organisation they are replaced, if possible, with someone on a lower salary, and where possible, the level of the post will be reduced. The overall aim is for the senior managers' paybill to be reduced by 25 per cent and for the number of senior managers to be reduced by 18 per cent, due to current political pressures for senior managers in the public sector to be paid modest salaries.

A service called 'Career Link' is in operation at the BBC, which provides assistance with: identifying and applying transferable skills; internal networking and finding new BBC opportunities; CV support and help with BBC applications, interviews, assessments and presentation skills. This service is delivered through counselling sessions or seminars delivered by external parties, and is available during work time to those at risk of redundancy. If, for example, 20 staff are in a department and five jobs must be cut within that department, all 20 staff will be offered the Career Link service. Career link is run and managed by the BBC's outsourced provider, Capita.

In addition, BBC Sports and Children's and Radio Five Live are relocating to Salford in 2011. Those employees that do not want to relocate to Salford require redeployment or are otherwise faced with the prospect of redundancy. It was predicted that few staff would opt to make the relocation, but due to the uncertainty created by the recession, around half of staff from these divisions are choosing to relocate.

The outcome

Some 1,500 jobs were required to be saved over the five year duration of the Creative Futures programme. By January 2010 some 850 jobs had been lost, of which over a quarter (27 per cent) were saved through redeployment. Voluntary turnover has reduced due to the redundancy potential and current economic climate.

An employee attitude survey that displays indicators of workplace stress, showed a slight upturn in stress levels amongst employees, as people experienced less control over their working lives. Also due to the job cuts, the remaining employees inevitably have to work harder, more efficiently and are under more pressure. However, the employee attitude survey also revealed that there has been improvement in staff understanding of the direction of the BBC, due to the communications received about reinvestment and BBC long-term strategy.

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