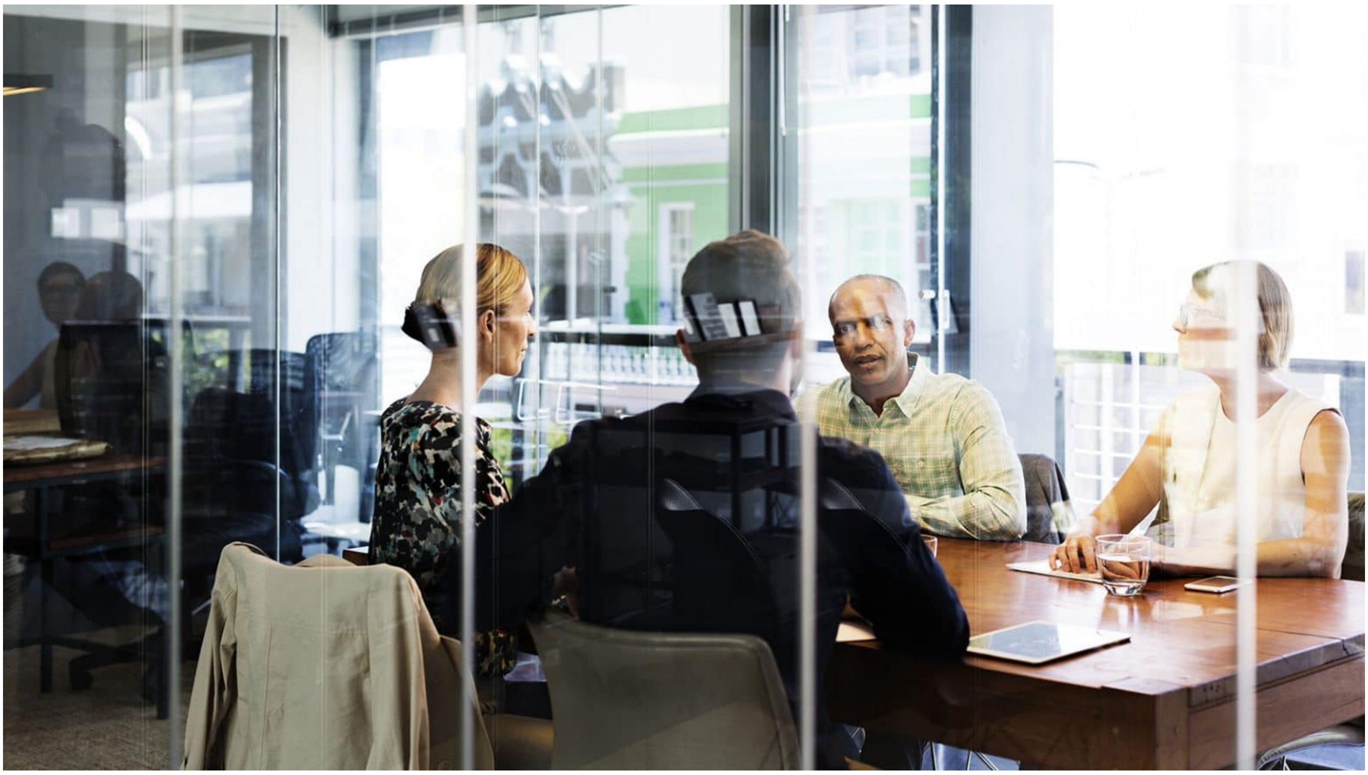
Rightsizing your workforce



The current turbulent economic climate has brought uncertainty to many organisations in a multitude of ways, with businesses often being left in the dark about how their future will look. Rightsizing provides businesses flexibility in this unknown market, to make short-term decisions to optimise their efficiency.

What does rightsizing mean?

Rightsizing is the process of restructuring a company to allow it to make profit more efficiently and to meet updated business objectives. Organisations can rightsize their business by reducing their workforce, reforming upper management, cutting costs and redefining jobs roles.

Rightsizing focuses on meeting new business objectives and to succeed after reacting to industry changes. The process concentrates on finding the right size and structure for a business, which doesn't always entail reducing the number of employees by downsizing.

What are the different rightsizing methods?

Ratio analysis

Ratio analysis reveals the financial health of an organisation by comparing past financial statements to current records and calculating the change. This enables organisations to compare their financial progress with their competitors and predict how their company can perform in the future.

Activity analysis

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Activity analysis studies the amount of time each person spends on the main activities involved in their role. The organisation can compare employee results and determine whether there is any duplication or overlap between roles.

How to rightsize your workforce

Cutting overtime and agency staff

An underlying principle of rightsizing involves cutting costs for a business. Reducing or cutting overtime opportunities can encourage employees to become more productive in their normal business hours, and reduce overheads.

If your business can sustain it, you should look to treat overtime and use of agency staff as the exception and not the general rule. Introducing flexible work schedules can reduce the need for both as employees can better fit their hours around their personal life. You could also introduce an overtime cap, whereby there is a limit of hours set per month for each employee. This method retains employees whilst also reducing payroll costs.

Lay-off clauses

A lay-off clause is a provision which may be in your employees' contracts of employment that states, in the event of a downturn in work or unforeseeable circumstances, you will not give employees any work or pay (save for statutory guarantee pay, a lower rate of pay) for a period of time.

Lay-off clauses can offer a temporary solution to unforeseen issues with workflow and are regularly used by organisations as an alternative to redundancy. This allows organisations to retain employees on their books whilst implementing temporary costs saving measures to fit their business at that current time as opposed to enforcing permanent measures which may not be appropriate.

Reducing or varying hours using a variation clause

A variation clause sets out a prescribed procedure to follow when varying employment contracts. Incorporating a variation clause into your employment contracts can assist you with implementing temporary changes to employees' terms and conditions, such as a variation to working hours. Use of this clause can allow you to rightsize your business dependent on your needs, and to avoid any permanent changes.

Employers need to be wary of potential ambiguity in variation clauses. They should be drafted and applied reasonably so do act with caution, and with assistance from a legal adviser. Cripps can assist you with this.

Temporary stop on pay rises / bonuses

The goal of rightsizing is to retain the right number of employees to fit business needs. Rather than downsizing and reducing the workforce, which could lead to under resourcing in the long term, a temporary pause on pay rises and bonuses is a suitable alternative.

Whilst bonuses give a boost to morale, research shows that this is not necessarily long lasting. When looking to reduce expenses, you should weigh up the cost of offering bonuses with the benefits that are gained from them.

Before removing a bonus you should check if it is genuinely discretionary. A bonus should not be removed if employees are contractually entitled to it. If a bonus is deemed as discretionary, it can be reduced or removed entirely if the funds are needed elsewhere. Clear communication with staff members and reassurance that this is a temporary measure is key, and will reduce any long standing negative impact.

Implementing a temporary stop on pay rises will also allow you to re-gain funds and improve your financial standing. Once your financial position has recovered, salaries can be increased. Rightsizing your business through a temporary stop on pay rises will optimise resources by adapting to the changing business environment.

Pay freezes can put a strain on relationships which could impact business growth. It is therefore crucial that employees are informed throughout and that the process is considered fair.

A pay freeze may also influence employees motivation and performance. If you are going to implement a pay freeze you should explore other ways to incentivise employees and to appreciate their hard work. Having well designed and clearly communicated KPIs linked to business goals can help set out employees' long term objectives.

How we can help

If you have any queries on the methods involved in rightsizing your business, please don't hesitate to get in touch with our employment team.

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