



Chartered Institute
of Personnel and
Development

Redundancy

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Survey report

May 2002

Contents

Executive summary	Page 2
Introduction	Page 3
The survey	Page 4
Research findings	Page 6
References	Page 18

Executive summary

This report sets out the findings of a survey of 563 organisations which, during the past 18 months, have made at least one employee redundant.

The main findings include:

- A large proportion of organisations (45%) believed that they would need to make further redundancies over the next 12 months.
- 37% of HR professionals said that organisations were too ready to make people redundant to meet short-term changes in demand.
- 53% of HR professionals said that younger people were less worried about the prospect of redundancy.
- 74% of lay-offs were compulsory.
- The main criteria used by employers for selecting people to be made compulsorily redundant included (where three criteria were selected by respondents):
 1. the employee's role within the organisation (68%)
 2. their job performance (62%)
 3. their ability or flexibility (52%).
- Most organisations (95%) sought to minimise the number of redundancies. The main alternative measures used included:
 1. offering alternative employment to employees in affected posts (74%)
 2. placing a freeze on recruitment (56%)
 3. achieving workforce reduction through natural wastage (55%).
- Employers reported that the most common reaction of employees to the announcement that they were to be made redundant was acceptance (49%).
- The majority of employers (72%) paid redundancy compensation above the statutory minimum. 50% of organisations provided counselling whereas 44% provided access to a specialist outplacement agency/consultancy.
- HR professionals described the redundancy process as 'traumatic' although most considered the job cuts to be necessary.
- Organisational restructuring is the most common reason given by employers for making redundancies (66%).

Introduction

Although economic growth is expected to pick up later in 2002, strong economic incentives to cut costs and restructure business are resulting in redundancies across the private sector, particularly in manufacturing. Findings of a recent survey suggest that about 60% of the FTSE 500 companies have made redundancies in the past six months¹. In response the CIPD has conducted a survey of organisations that have made redundancies during the past 18 months.

The aim of this survey is to provide information on:

- the extent to which organisations plan to carry out further redundancies
- how best to manage the redundancy process
- alternatives to redundancies and the extent to which these are used
- what redundancies mean in practice to organisations and individuals.

The survey

In March 2002 the CIPD sent a questionnaire to a random sample of HR professionals in 7,000 organisations in the UK. We received 563 replies from those organisations that had made at least one member of staff redundant in the previous 18 months.

Organisations participating in the survey ranged from very small (with a workforce of just three staff) to very large (over 100,000 employees). Table 1 gives the composition of survey responses by workforce size.

Table 1: distribution of responses by workforce size

Number of employees	% of organisations
0–99	11.5
100–249	22.6
250–499	21.9
500 and over	44.0
Total	100

Responses came mainly from private sector organisations. The cross-sectoral nature of the survey confirms that job loss is currently concentrated in private industries and services. The Labour Force Survey 2001 reports that the redundancy rate for manufacturing industry was 16 per 1,000; for banking, finance and insurance

it was 11, while in public administration, education and health the rate was just 2 per 1,000.²

Table 2 provides a sectoral breakdown of responses to the survey, and Table 3 shows the regional distribution of responses.

Table 2: distribution of responses across the economy

Sector	Number of organisations replying	% of total response
Manufacturing/production	263	46.7
Agriculture and forestry	2	0.4
Mining and quarrying	3	0.5
Electricity, gas and water	9	1.6
Construction	26	4.6
Engineering and metals	56	9.9
Food, drink and tobacco	31	5.5
General manufacturing	68	12.1
Paper and printing	10	1.8
Textiles	18	3.2
Chemicals	12	2.1
Other manufacturing	28	5.0

Sector	Number of organisations replying	% of total response
Services	253	44.9
Consultancy	19	3.4
Financial services	29	5.2
Hotels, restaurants and leisure	19	3.4
IT services	23	4.1
Legal services	7	1.2
Media and publishing	18	3.2
Not-for-profit	20	3.6
Retail and wholesale	39	6.9
Transport and storage	25	4.4
Telecommunications	12	2.1
Other services	42	7.5
Public services	45	8.0
Education	18	3.2
Central government	2	0.4
Local government	7	1.2
Health	9	1.6
Other public sector	9	1.6
Sector information not supplied	2	0.4
Total	563	100.00

Table 3: distribution of responses by region

Region	Number of organisations replying	% of total response
East Anglia	29	5.2
Midlands	70	12.4
North East	44	7.8
North West	44	7.8
South East	117	20.8
South West	36	6.4
Northern Ireland	1	0.2
Scotland	27	4.8
Wales	12	2.1
Nationwide	181	32.1
Information not supplied	2	0.4
Total	563	100.00

Research findings

How many redundancies are made per organisation?

In most organisations redundancies accounted for less than 6% of the workforce. However a sizeable minority of employers (14%) laid off 20% or more of their employees.

Respondents were asked how many people they had made redundant during the past 18 months. The 563 organisations in our survey had made a total of 47,108 people redundant over this period, ranging from a single redundancy in 31 organisations to one company which had laid off 4,500 people.

Where organisations had provided information on the size of their workforce, it was possible to calculate the proportion of the workforce that had been made redundant. This analysis showed that:

- in most cases less than 6% of the workforce was involved

- more than 20% of the workforce were made redundant in a sizeable proportion of cases (14%).

Table 4 also provides a comparison by sector. This indicates that in two-thirds of the public sector organisations sampled in this survey, redundancies had amounted to less than 2% of the workforce. In contrast most redundancy programmes in the manufacturing and production sector had involved at least 5% of the workforce which rises to 10% for 45% of cases. Similarly the mean proportion of the workforce to be made redundant in the public sector was 3% compared with 11% for the private services. The average proportion of the workforce to have been made redundant in the manufacturing/production sector was 20%. This is broadly consistent with the Labour Force Survey figures quoted above, which indicate that employees in manufacturing are eight times more likely than those in the public sector to be made redundant.

Table 4: proportion of the workforce made redundant

Proportion of workforce	Manufacturing/production	Services	Public services	All
	%	%	%	%
0% – 1.9%	16.0	33.6	66.7	28.3
2% – 4.9%	20.5	18.4	17.1	19.4
5% – 9.9%	18.5	18.9	8.6	17.9
10% – 19.9%	26.0	17.0	5.7	20.1
20% –100%	19.0	12.0	2.9	14.3
Mean proportion of workforce	19.9	11.5	3.4	14.7
Total	100.00	100.00	100.00	100.00

Which employees have been made redundant?

We asked employers to indicate the numbers of people in specific occupational groups that had been made redundant, as illustrated in Table 5. It indicates that on average 8% of those who were made

redundant held senior management positions; 24% were managers/professionals; another 24% held skilled non-manual posts while 20% were skilled manual workers.

Table 5: what proportion of employees were made redundant?

Occupational group	Manufacturing/production (n= 259)	Services (n=250)	Public services (n=45)	All (n=554)
Mean proportion of all those made redundant %				
Senior managers or executives	5.7	9.8	14.0	8.3
Other managers and professionals	18.1	26.9	37.5	23.7
Other skilled non-manual workers	21.9	27.5	21.2	24.4
Skilled manual workers	29.0	11.4	10.8	19.6
Other employees	22.5	17.2	10.6	19.1

Why did these redundancies take place?

Table 6 shows that the most common reason for redundancies was the restructuring of the existing business, followed by a drive for cost reduction. Nearly half of all respondents in the manufacturing sector cited a fall in sales as one of the reasons for redundancy.

Table 6: reasons for redundancies

Reasons given <i>(Respondents could tick as many responses as they thought were relevant)</i>	Manufacturing/production (n= 263) %	Services (n=253) %	Public services (n=45) %	All (n=563) %
Restructuring of existing business	62.3	69.0	71.7	65.7
Wish to reduce costs	42.6	43.6	30.4	41.8
Falling sales	44.1	28.6	8.7	34.3
Relocation of business or part of business	17.9	18.2	4.3	16.8
Merger or acquisition	11.4	14.8	8.7	12.4
Fall in share prices/worries about possible takeover	0.4	1.2	0	0.7
Other	10.3	13.9	19.6	12.6

Voluntary versus compulsory redundancies

The mean (average) proportion of redundancies that were compulsory across the survey was 74%. In most organisations the proportion of all layoffs that were compulsory exceeded 93%.

How were employees selected for compulsory redundancy?

Job role, job performance and ability/flexibility are the three most common means used to select employees for compulsory redundancy.

Survey participants were asked to indicate the three most important criteria used to select employees for compulsory redundancy. Table 7 sets out replies by major sector. This shows that the main selection criteria used were the employee’s role within the organisation; their job performance and efficiency; and their ability and flexibility. Length of service was one of the main criteria in just over a quarter of the organisations in the

survey. Organisations generally discounted the age of the employee when making redundancy selection decisions. Only two businesses – both in the manufacturing sector – indicated that this was one of the main criteria used in selecting for redundancy.

A key sectoral difference is that public sector organisations were considerably less likely to use performance/efficiency and ability/flexibility as criteria than the private sector and were more likely to look at the individual’s role within the organisation.

Line managers were involved in selecting employees for redundancy in the vast majority of organisations (85%).

Table 7: redundancy selection criteria

Main selection criteria	Manufacturing/production (n= 247) %	Services (n=238) %	Public services (n=36) %	All (n=521) %
Role within the organisation	64.4	70.2	80.6	68.1
Job performance/efficiency	61.1	63.9	36.1	61.7
Ability/flexibility	51.8	52.9	41.7	51.6
Length of service	30.8	23.9	13.9	26.5
Absence/disciplinary record	29.6	19.3	8.3	23.4
Level of responsibility	7.3	7.1	13.9	7.7
Remuneration	5.3	4.6	2.8	4.8
Age	0.8	0.0	0.0	0.4
Other	6.5	13.4	13.9	10.2

How can organisations avoid redundancies?

A substantial majority of organisations in the survey sought to minimise the number of redundancies by using alternative means of cutting jobs (95%). The most common included:

- offering alternative employment within the organisation
- recruitment freezes
- natural wastage.

Survey respondents were asked to indicate any measures that they had used to minimise the number of redundancies in their organisation. The main measures included offering alternative employment to employees in affected posts; placing a freeze on recruitment and achieving workforce reduction through natural wastage. In addition, around 45% of organisations reduced their use of contract staff and a

third offered retraining to employees. A quarter of organisations offered early retirement as an alternative to redundancy, whereas a sixth had frozen or cut the pay of some or all employees in order to reduce the need for redundancies.

A recent CIPD study³ found that many people would be prepared to accept a grant from their employer to take study leave as an alternative to redundancy. However, only 1% of employers offered this as an alternative to employees facing redundancy.

There were some notable sectoral differences. Public sector organisations were considerably more likely to use early retirement or offer staff the opportunity of secondment to another organisation. In contrast, they made less use than private sector organisations of recruitment freezes, cutting the use of contract staff and of pay cuts or freezes.

Table 8: measures to avoid redundancy

Measures used	Manufacturing/production (n= 263) %	Services (n=253) %	Public services (n=45) %	All (n=563) %
Offering alternative employment within the organisation	76.0	73.1	80.0	74.5
Recruitment freeze	59.3	56.5	35.5	55.8
Natural wastage	58.2	54.1	48.9	55.4
Reducing or eliminating the use of contract staff	48.7	44.3	22.2	44.2
Retraining existing employees	33.8	33.8	35.5	33.8
Offering staff early retirement	28.5	21.7	42.2	26.4
Pay cut or pay freeze for some or all staff	15.2	20.5	6.7	16.8
Arranging secondment to another organisation	9.9	7.9	17.8	9.6
Offering flexible working patterns	10.3	7.9	11.1	9.2
Deferring starting date for new recruits	6.8	10.7	2.2	8.1
Offering study leave as an alternative to redundancy	0.0	2.0	4.4	1.2
Providing opportunities for voluntary/charitable assignments	1.1	1.2	2.2	1.2
Other	7.6	3.9	11.1	6.2
No alternatives to redundancy used	5.3	5.9	4.4	5.5

Organisations were also asked to list up to three measures which they had found to be most effective in minimising the need for redundancies. Offering alternative employment within the organisation was seen as the most effective measure.

Table 9: most effective measures to avoid redundancy

Measures cited as most effective	Manufacturing/production (n= 209) %	Services (n=200) %	Public services (n=34) %	All (n=443) %
Offering alternative employment within the organisation	56.0	59.0	67.6	58.2
Recruitment freeze	34.4	38.0	26.5	34.4
Natural wastage	31.1	30.0	26.5	30.2
Reducing or eliminating the use of contract staff	23.4	23.5	8.8	22.3
Retraining existing employees	17.7	16.0	14.7	16.7
Offering staff early retirement	18.2	7.5	32.3	14.4
Pay cut or pay freeze for some or all staff	7.1	7.5	2.9	7.0
Arranging secondment to another organisation	1.4	3.0	11.8	4.5
Offering flexible working patterns	4.8	4.0	2.9	4.3
Deferring starting date for new recruits	0.5	1.5	0.0	0.9

How were employees informed about redundancies?

Most employers used one-to-one meetings to inform employees who were likely to be affected by potential redundancy situations. The line manager of those concerned usually had responsibility for informing staff, and individual letters and collective meetings were also commonly used by employers in this survey to communicate likely redundancies.

Table 10: how employees were notified of potential redundancies

Means of notification	Employers using (n=563) %
Individual meetings	80.5
Line manager notification	61.4
Individual letters	57.0
Collective meeting	47.6
Meeting with trade union representatives	30.3
Notice board	13.3
Circular letter	10.1
E-mail	5.1
Press or other media	2.1
Other means	5.1

To what extent are HR professionals involved in the redundancy decision-making process?

In the majority of cases HR professionals were involved in corporate decision-making about the need for redundancies. Line managers had a key role in selecting people for redundancy. They were also most likely to take the lead in informing workers that they were to be made redundant. In most organisations, HR professionals assisted in informing employees and in ensuring the proper implementation of procedures.

In over two-thirds of organisations the HR role in redundancy situations extended beyond simply implementing decisions made at a higher level. Forty-one per cent of respondents said that the HR department had been consulted by the board about the need for redundancies. Also, 29% reported that the HR professionals had actively advised the board of the need for redundancies. In the remaining 30% of cases HR had just carried out the board's instructions.

In 41% of organisations, members of the HR function had a direct role in informing individuals who were to be made redundant. Eighteen per cent said they had sole responsibility for this role; while in 33% of organisations it was shared with line managers. Line management played a major role in this process in 43% of organisations. Six per cent of organisations used other means of informing employees.

In a partial reflection of their role in strategic decision-making, the majority of HR professionals (81%) considered that the number of redundancies made by their organisation was about right. Seven per cent suggested that the number of people made redundant had been excessive and 12% said that not enough redundancies had been made. HR professionals in organisations that had made a large number of employees redundant were most likely to consider that the level of redundancy had been excessive, as Table 11 shows. However, even in cases where 20% or more of the workforce had been laid off, three-quarters of respondents supported the level of redundancy.

Table 11: views on number of redundancies made

Statement	Respondents saying number was excessive %	Respondents saying number was about right %	Respondents saying number was too low %
0% – 1.9%	2.4	89.4	8.1
2% – 4.9%	4.5	80.4	14.9
5% – 9.9%	3.8	80.8	15.4
10% – 19.9%	13.3	74.4	12.2
20% –100%	15.6	76.6	7.8
Overall	7.5	80.7	11.7

How much support is offered to those who are made redundant?

Financial compensation above the statutory minimum is the most common support offered by organisations (73%).

Most of the employers in this survey – nearly three-quarters – provided redundancy compensation which exceeded that required by law. In addition, half offered counselling to redundant employees.

Nearly half of all organisations in the survey attempted to assist employees in finding alternative employment by providing access to the services of a specialist outplacement agency or consultancy.

Assistance in the form of financial support for retraining was much less common – supplied by only 14% of employers.

Only a minority of organisations (18%) offered the opportunity to retain equipment supplied by the organisation – such as a company car or laptop computer – as part of the redundancy compensation package. Just 17% made professional financial advice available to redundant employees and 11% provided other forms of support such as interview practice or help with drafting CVs. The main differences between sectors was that a higher proportion of public than private sector organisations offered counselling to redundant employees, and public sector employers were also more likely to offer financial support for retraining.

Table 12: support offered to redundant employees

Form of support	Manufacturing/production (n= 263) %	Services (n=253) %	Public services (n=45) %	All (n=563) %
Redundancy or other payments in excess of statutory minimum	72.6	70.0	82.2	72.0
Counselling	50.6	47.8	66.7	49.7
Access to specialist outplacement agency/consultancy	43.0	44.7	48.9	44.1
Opportunity to retain equipment supplied by the organisation	17.1	20.2	8.9	17.7
Professional financial advice	20.5	12.6	17.8	16.6
Financial support for training	16.0	9.5	28.9	14.0
Other support	12.2	8.3	15.5	10.8

Organisations were asked whether they had made any changes during the past year in the way that redundancies were handled. Most (69%) had made no changes. Of those that had made changes, the most common included improving the communication and/or consultation processes around redundancies; enhancing the redundancy package and providing counselling and outplacement services.

Eight per cent of employers said that they were contemplating future changes in the way that redundancies were handled.

What is the impact of redundancies on individuals and organisations?

Employers reported that the most common reaction of employees to the announcement that they were to be made redundant was ‘acceptance’. When exploring the effect of the redundancies on the remaining workforce, most respondents thought that there had been a negative impact on staff morale in particular. However, there were indications that such impact might be short-lived.

Impact on those made redundant

Respondents were asked to comment on the reactions of people who had been told that they would be made redundant. Nearly half of the HR professionals in our survey said the most common reaction was acceptance (resignation). However, in over a fifth of organisations the bulk of individuals were shocked by the decision and in 13% of cases most employees were angry.

Table 13: employee reactions to news of their redundancy

Reaction of the bulk of employees	Employers saying that this was the most common response (n=550) %
Prepared to accept it	48.5
Shocked	22.2
Angry	13.3
Happy	2.9
Relieved	2.5
Apathetic	2.0
Mixed	6.7
Other	1.8

Does redundancy have an impact on employee relations?

Respondents were asked to comment on whether the redundancies made by the organisation had had any impact on employee relations. Responses to this question show that redundancies generally involve some costs beyond those directly associated with making people redundant. Of those who replied to the question, 62% had seen some impact. The most common effect, cited by over half (52%) of all employers, was a decline in the morale of existing employees. Table 14 shows that some organisations felt the impact in the form of a loss of trust from employees, loss of valuable skills or experience, or increased labour turnover.

Table 14: impact on employee relations

Impact	Employers citing (n=563) %
Decline in the morale of remaining employees	52.2
Loss of trust from remaining employees	30.3
Loss of skills or experience that the organisation continues to need	18.4
Increased turnover among remaining employees	13.1
Narrower age distribution	2.5
Other impact	8.3

Despite the concerns about the immediate effects of redundancies on employee relations, a number of respondents made the point that such effects, particularly on workforce morale, tended to be short-lived. This view is supported by Table 16. Most respondents did not think that their organisation was still suffering from the effects of previous redundancies.

Does the redundancy process have a personal impact on HR professionals?

The HR professionals who participated in the survey were also asked to comment on whether the experience of handling redundancies had had any negative impact on them as individuals, either at work or in their personal life. They were asked to rate the impact on a scale of 1 (no negative impact) to 5 (very negative impact).

Respondents were more likely to report an impact on their work than on their personal life. The average score for impact on work was 2.6 whilst on personal

life it was 2.2. These figures hide a considerable range. While 46% of respondents said that dealing with redundancies had had no, or very little, impact on their work (a score of 1 or 2), 22% indicated that it had had considerable impact (a score of 4 or 5). The equivalent figures for personal life were 63% indicating little impact and 16% considerable impact.

HR professionals in organisations that had made a large proportion of their workforce redundant were more likely to have felt an impact on both their work and personal life.

Table 15: HR professionals – personal impact of redundancies

Proportion of workforce made redundant	Average score for impact on work life (n=445)	Average score for impact on personal life (n=445)
0% – 1.9%	2.39	1.94
2% – 4.9%	2.41	2.01
5% – 9.9%	2.54	2.14
10% – 19.9%	2.91	2.44
20% –100%	2.92	2.83
Total	2.60	2.22

Views on redundancies

Respondents to the survey were asked to indicate the extent to which they agreed or disagreed with a range of statements on redundancies. Table 16 summarises responses to this question. These responses confirm findings from other parts of the survey that although HR professionals see making redundancies as a traumatic process, most think that they are necessary and consider that the process is essentially well-managed in their organisation.

Table 16: views on redundancies

Statement	Respondents agreeing %	Respondents giving neutral response %	Respondents disagreeing %
Redundancies in this organisation are well-managed	73.1	17.7	8.8
It is always stressful for managers to tell employees that they will be made redundant	90.9	6.5	2.5
Employees do not necessarily see redundancy as the threat it used to be	31.8	31.9	36.3
Younger people are less worried than their older colleagues about the prospect of redundancy	52.5	23.5	23.8
Organisations are too ready to make people redundant to meet short-term changes in demand	36.8	27.3	35.9
Employers are too preoccupied with the share price when deciding whether or not to make people redundant	22.9	33.3	43.7
This organisation is suffering from the effects of previous redundancies	22.3	20.4	57.3

How likely are future redundancies?

Almost half of the respondents to the survey believed that further redundancies were likely or extremely likely (45%).

All the participants in this survey work in organisations that had made a least one member of staff redundant during the previous 18 months. They were all asked to assess the likelihood that further redundancies will be needed in their organisation during the next 12 months. Assessment was made on a scale of 1 (extremely unlikely) to 5 (extremely likely). Thirty one per cent indicated that further job losses were unlikely or extremely unlikely compared with 45% who felt that they were likely or extremely likely.

References

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