

Dilemma of a downturn: to force pay cuts or slash jobs?

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THE PROBLEM

As recession takes hold, some companies have begun reducing costs by making redundancies.

Chrysler, for instance, is slashing up to a quarter of its workforce, or some 5,000 jobs.

Others are asking workers to take a pay cut.

CLSA, the brokerage arm of Crédit Agricole, asked its 500 top staff to say whether they would accept a 15, 20 or 25 per cent salary cut in 2009. Workers at JCB, the construction equipment manufacturer, have agreed to take a pay cut and work a fourday week to reduce costs after job cuts ealier this year.

Neither course of action is without risk: pay cuts might prompt the departure of top performers but job cuts are likely to damage morale. How should managers decide between them?

THE ADVICE

THE EXECUTIVE

Bob Lawson

Current conditions are forcing leadership teams to answer the question "Who is important?". They thought that they had answered this question in benign times but it now takes on a new imperative and "forced ranking" will be essential.

The result will be a diagonal cut rather than a horizontal one that removes only a layer of relatively lowpaid people. Such cuts need to be deep, as it will be years, not months, before volumes return to previous levels.

For most businesses workshare solutions will not suffice: they do not remove enough cost, particularly at the upper levels where big savings are available. In the UK, this is a side effect of a raft of legislation that has increased the fixed cost of an employee while reducing the flexibility of the overall labour market.

The above are the easy pieces: more difficult is to reestablish morale in a slimline company and to prepare a coherent plan for growth or increased market share for an unknown point in the future.

The writer is chairman of Hays and Barratt Developments

THE ACADEMIC

Thomas A. Kochan

Salary cuts are a feasible alternative to job cuts if it is certain that a onetime reduction in costs will allow the company to weather the economic crisis and if employees are engaged in the decision

and willing to support each other. But it has to be a oneoff event; a second cut after everyone has already made sacrifices courts disaster.

These, however, are not the only options to consider. By working together, managers, employees, unions and policymakers can also choose options such as reduced hours; attrition; financial incentives to induce voluntary retirements; severance pay; or various forms of private assistance (finding a new job, starting a new business, going back to school, or entering a training programme). Governments can support these options with partial or extended unemployment benefits, coordinated public service initiatives and tax credits for training or job creation.

Creative and coordinated efforts along these lines will not only help companies survive the current turmoil but also hasten the recovery.

The writer is a professor at the MIT Sloan School of Management and author of 'Restoring the American Dream: A Working Families' Agenda for America' (The MIT Press)

THE CONSULTANT

Alan Leaman

Your starting point should be a focus on your best people: how are you going to keep them and sustain their enthusiasm through a difficult period? Holding on to talent is vital; your competitors will be trying to poach them at a discount.

If resources are tight, pay cuts should be balanced by new ways to engage employees in the business, better career development and training, and asking them to lead new thinking on preparing for the upturn. They need to believe they are part of the solution. If you go for job cuts, make sure they are targeted. Where possible, take the opportunity to weed out the underperformers. If you cannot do this you are likely to face higher costs later and a damaged organisation.

Giving in to the temptation to hunker down will create an atmosphere of crisis. Communication is more important than ever. Employees who stay, or take a pay cut, must believe that you know what you are doing. A clear strategy for dealing with the downturn - discussed with staff - will win you greater freedom of manoeuvre.

The writer is chief executive of the Management Consultancies Association

THE PR

Paul Taaffe

Each company's circumstances will dictate the choice between job reductions and pay cuts. But once the decision is made, communication is the key to success. If the objective is to make the workforce happy, it is a nowin proposition. A more realistic challenge is to make the workforce understand.

Employees whose jobs are not affected will want to know more about the future. Will more job actions be required? How does my job change? Managers should answer with honesty and

compassion. The people left behind will accept painful decisions but only if they see that they make a difference.

Management, though, often fails to demonstrate its own sacrifice. You cannot ask the employees to swallow a bitter pill without also being seen to cut back. Ultimately companies are criticised not for making tough decisions but the manner in which they carry them out.

The writer is chairman and chief executive of Hill & Knowlton