

Press Release

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PLCs to waste £67m in needless recession costs

‘Don’t burn the furniture,’ says Able and How

LONDON (19 January 2009) – Over the next five years the average FTSE 100 company will needlessly incur costs of more than £67 million through poorly communicated changes and unnecessary lay-offs, according to a report by leading management consultancy, Able and How.

In the current year alone, the UK’s top 100 companies will each waste on average £24m through laying-off staff unnecessarily, the cost of hiring replacements, and the loss of productivity as a result of lower morale or lack of confidence in the future.

“It’s like burning the furniture to keep warm. You can quantify the cost of mishandled layoffs and lost opportunity. In the process of wildly wielding the axe businesses are unnecessarily killing morale and losing good people. Unfortunately, they will end up paying for it for years to come,” said Managing Director David Ferrabee.

The key factors in these estimates are the cost of layoffs, the cost of hiring and the loss of productivity as a result of lower morale or lack of confidence in the future.

“By not taking a measured approach to cost cutting, and failing to communicate with their employees, these organisations risk needlessly depleting vital reserves of capital” adds Ferrabee. ***“By contrast, big businesses that can be tempered in their response to recession, and communicate effectively will thrive in the upturn.”***

According to Able and How, there are four ways in which companies are wasting money in the current downturn:

1. Layoffs

The average cost of a single layoff is estimated to be £16,000 (*Source: John Philpott, Chief Economist, Chartered Institute of Personnel and Development, Jan 2009*). And the costs aren’t immediately taken out of the business. Able and How estimates that 5% of the workforce of a median-sized FTSE 100 company will be made redundant unnecessarily this year and next. A further 2% will quit this year, on top of normal staff turnover levels, with those numbers rising over the next few years. When handled properly however, employee costs can be reduced in a more measured and effective way than this. Even when people are laid off to protect cash flow, the long term impact on morale and productivity can be mitigated.

2. Replacement costs

At the same time, even when a company only replaces those who resign, its costs will be significant. As job prospects improve, employees who feel they or their colleagues were treated unfairly will have more opportunity to leave. For example, if just an extra 5% of the workforce decided to move jobs in 2011, a typical FTSE 100 company would face additional recruitment costs of more than 5 million pounds.

3. The impact of lower morale

Statistics published earlier in January (*Source: Aaron Ross, absence management company First Care, Jan 2009*) about people taking sick days in the middle of the crisis is just one indicator of how employees are reacting to the unending cycle of bad news and lay-offs. And people are more susceptible to illness when they are at a low ebb. Able and How estimate the impact of low morale on productivity to equate to a 0.05% reduction in revenue.

4. Communicating strategy

Underlying all of these issues is the very real concern that businesses are not able to show employees a way out of the current recession. Cuts are made, programmes are curtailed and sites are shut down without the appropriate explanation. Because employees and other important business stakeholders are not made aware of the strategy behind these changes, the desired effect is lost and productivity across the business drops. Key skills are lost and so are profits.

“Companies that make a measured and strategic response to the recession won’t face these extra penalties,” concludes Ferrabee, ***“It is not difficult to plan, explain and deliver an updated strategy to employees and stakeholders in a way which does not destroy morale and productivity. If businesses can keep their heads, they can keep their people. And the business that keeps its people, its revenues and its clarity of purpose, will lead the charge into better times.”***

A discussion paper on the above will be published on the company blog on Monday. Key assumptions and a summary of the model are attached here.

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Able and How is a management consultancy specialising in organisational communications. We help companies improve their bottom line through communications. We bring together the best minds in internal communication, organisational development, change management and human resources communications.

Key assumptions and model

Median number of employees in a FTSE 100 company: 23,600

Cost of making 1 employee redundant: £16,000

Cost of recruiting 1 employee: £5,000

	2009	2010	2011	2012	2013
Unnecessary redundancies (as a percentage of the total workforce)	5	5	0	0	0
Staff leaving in excess of normal turnover (as a percentage of the total workforce)	2	5	4	4	2
Percentage reduction in revenue due to poor morale	0.05	0.05	0.05	0.05	0.05
Cost of redundancies	£18,880,000	£17,936,000	£0	£0	£0
Additional recruitment costs	£2,360,000	£5,605,000	£4,259,800	£4,259,800	£2,129,900
Reduction in revenue (0.05% of median FTSE100 revenue)	£2,433,500	£2,433,500	£2,433,500	£2,433,500	£2,433,500
Total cost to revenue	£23,673,500	£25,974,500	£6,693,300	£6,693,300	£4,563,400