News

Businesses may be using redundancy as a way to ‘repair’ profit margins

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By Annie Makoff-Clark

Brexit and economic tightening cause uncertainty for companies, with £3.8bn paid out last year

Businesses could be using redundancy as a way to ‘repair’ profit margins, experts have said, after new research found that UK firms paid out around £3.8bn in redundancy payments last year to more than 200,000 staff.

Law firm Hugh James said 255,000 staff were made redundant during 2016-17, though the value of redundancy payments declined slightly from £4bn in 2015-16.

Companies were still “making the decision” to endure large redundancy payouts in the short term to increase profitability over the longer term, the analysis suggested.

The maximum statutory payout for redundancy per employee is currently set at £14,670, but businesses were

According to Emma Burns, the firm's head of employment and HR services, redundancy was viewed by some organisations as a "shrewd long-term investment" which, despite the relatively high cost, can make a workforce "leaner" and more "fit for purpose".

"Businesses may be better placed to consider other measures such as changing employee terms and conditions or cutting hours. This can reduce the pay bill without having to pay redundancy costs," she said.

Uncertainty over Brexit was likely to create "additional redundancies", she added, with the potential that some jobs could be moved overseas in the long term.

Brexit has already been blamed for thousands of redundancies across the UK. In April last year, architectural firm Foster + Partners admitted that fear of a hard Brexit had resulted in the company making 100 redundancies, while confectionary giant Nestlé said it would axe 140 jobs in its York factory because of the rising price of cocoa and sugar, which it blamed on Brexit.

Brexit was also cited when Southern Salads went into administration in August 2017 and 260 people lost their jobs.

Within the UK retail sector, there have been fears that **15,000 jobs could go this year as the industry 'strains' under cost pressures**.

Several high street retailers including Toys R Us, Maplin and Carpetright have gone into administration, while Debenhams, Marks & Spencer, Tesco and Morrisons have all announced redundancy plans.

Beverley Sunderland, managing director at Crossland Employment Solicitors, told *People Management* that most redundancies come about as a result of smarter working methods or pressure on costs.

"There is a popular misconception that redundancies only occur when a business is in financial trouble, which is not the case," she said.

"Sometimes, a business can be very successful but may need a leaner workforce. It is not necessary for a business to show an economic justification or business case for the decision to make redundancies, just that the number of employees has reduced."

Alan Price, HR director at employment law and health and safety consultancy Peninsula, said cutting staff costs could put companies in a "better financial position" – despite redundancy exercises involving significant voluntary or statutory redundancy payments in the short term.

"With uncertainty around Brexit causing question marks over future profits, employers may be looking to future proof their business now," he said. He also suggested that employers may be moving away from the traditional employment model and using freelancers or consultants instead.

But Stephen Levinson, consultant solicitor at Keystone Law, said the Hugh James analysis was "speculative and misleading".

"There is the possibility that profits may increase if workers who are not needed are removed from the payroll but that does not mean that is the purpose or reason for the dismissals," he told *People Management.*

Punam Birly, partner at KPMG, said it was currently "not possible" to say whether the redundancy figures from the Hugh James analysis were linked with EU nationals being unlawfully targeted for redundancy, as a result of companies moving overseas or wider business changes not linked to Brexit.

But she warned that rehiring people previously made redundant from knee-jerk reactions was "far too common", and that losing talented people because of potential overseas moves before the impact of Brexit was "fully understood” could end up costing businesses more in the long run.

Rick Smith, managing director of insolvency and company rescue specialists Forbes Burton, said: “It’s no surprise that firms are tightening their belts with the likes of the recent closures of Carillion and Toys R Us, and Capita shutting down large sections of its operation. Add Brexit to the mix and we are all trading in uncertain times. Firms across most sectors are having to look at short and long-term adjustments to weather the pending storm.”

Companies are looking to increase profit margins in the long term by paying out huge redundancy packages, as they will need to react in the near future [to the economy], strip down their operations and “give themselves a fighting chance”, he added.

Smith said Brexit is “inevitably” creating more redundancies and that while employment is currently high, this won’t last as “firms struggle with uncertainty and the current austerity”.

The Department for Business, Energy and Industrial Strategy declined to comment.

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