

30 April 2008

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Dear Sir/Madam

## **Submission to the Ministerial Advisory Group on Restructuring and Redundancy**

### **Background**

The New Zealand Manufacturers and Exporters Association (NZMEA) represents the interests of manufacturers and exporters throughout New Zealand.

The Association is New Zealand's only focused, independent voice for manufacturers and exporters, with members making over \$2.0 billion in sales, with an export value of around \$1.0 billion. The Association can trace its beginning to the early history of New Zealand.

We have canvassed our members for comment in regard to this submission. The responses have been reasonably uniform and consistent.

Redundancy and reorganisation are often forced on companies by macroeconomic changes over which the owner/operators have little or no control. Viability can be quickly threatened by changes in customer characteristics (the exit from New Zealand of top tier manufacturers), or lower returns due to changes in exchange rates. These changes can be traumatic and sudden; companies with strong balance sheets can deal with matters in a more effective way than those who do not have such deep pockets.

If the opportunity arises we wish to speak on this submission.

### **Legislated Redundancy Provisions**

There is strong opposition from our members to legislated redundancy provisions.

Redundancy provisions are seen as part of the negotiation between employer and employee; better provisions will accrue to those with a stronger negotiating position.

As an example; an applicant who is a well-qualified individual, who currently has a job that is relocating from another centre, would be in a different position than an unskilled, unemployed individual who lives close to the place of potential employment. Obviously the current labour market conditions underpin all such discussions.

Legislated redundancy provisions would increase the risk associated with new jobs at new businesses. If that business fails, for whatever reason, the cost of reorganisation would increase beyond what might have been negotiated between the parties. As a consequence, risk is concentrated on the employer, and employment opportunities will be reduced.

The vast majority of New Zealand business are small enterprises and cannot easily carry increased risk. Reorganisation is stressful, and often comes at a difficult time, with simultaneous pressures from many sources on cash flow. Any increased costs, at such times, will threaten yet more jobs in the business and the wider economy.

**Negotiated redundancy provisions will always take into account:**

- The size of the company and the ability to pay.
- The risk exposure and risk tolerance of the business owners.
- Reasons for, or certainty of, any change in activity level.
- The level and purpose of employment – skills, availability, relocation, full time/part time.
- Local employment conditions and any other specific factors.

The negotiation between the parties involved will be sensitive to the concerns of those involved. Legislated provisions will, of necessity, have a formula based approach that is unlikely to suit the conditions encountered in particular circumstances, or leave a business under pressure less able to sustain what remains after the reorganisation.

A few moments thought shows the often used “length of service” approach to be irrelevant when companies are responding to change, and “last in, first out” formulas lose skills that might be needed to support viability after the reorganisation.

It should not be forgotten that when reorganisation is necessary, everyone associated with the business; other staff, its suppliers and customers are also involved and not only the particular people who are found to be redundant. An exclusive focus on those who are redundant might mean that more redundancies follow from a second or third round effect as the business struggles further in the wake of each round of change.

Legislated redundancy provisions will be inflexible, inappropriate and add further to the anti-competitive load carried by New Zealand business; loads not carried by our trading partners. The resulting loss of competitiveness will inevitably mean fewer jobs for New Zealanders.

**Consultation and Notice Periods**

At times of reorganisation driven by external factors, companies face a significant dilemma and talking about the problem may well destabilise other parts of their supply chain. Will suppliers be concerned and act in a way that makes things worse? Will customers and staff mirror that behaviour? Reorganisations are sensitive and tricky matters, and more legislation that prescribes onerous consultation and notice requirements, is likely to exacerbate reorganisation difficulties threatening what remains.

Again, legislation is not sensitive to the situation that is driving the reorganisation. It might be a well signaled and long-term process and it might be otherwise, leaving little time for the business to respond. Flexibility is paramount at such time; more legislation should be avoided.

### **Mass Redundancies**

We have seen the examples of such mass redundancies in recent weeks with the relocation of white-ware manufacturers to Thailand and the potential for the transfer of service jobs to India. This has both direct and indirect impacts because the manufacturing jobs probably have five other jobs in the supply chain dependent on them. Different components of this system will have different notice periods, and differing abilities to influence what happens. It is hard to see how legislation has an effective role to play in such differing circumstances.

### **Redundancy Compensation**

Macroeconomic forces and management ability clearly have an impact on business. At best, good management can hold back macroeconomic pressure but it cannot do that forever. Policy frameworks evolve from a democratic process but do not suit everyone. Consequently, it is equitable that the Crown (on behalf of us all) carries some of the reorganisation load. Lower tax rates on negotiated redundancy payments would be helpful in this regard.

Businesses under pressure, almost by definition, do not have strong cash flows and capturing cash to compulsory redundancy payments threatens what business remains and should be avoided. The idea of insurance to cover redundancy payments is impractical. It will clearly add cost and has complications around cause. No Fault Insurance is likely to be even more expensive and will drive even higher premiums, especially for small and start up businesses as they clearly are a higher risk.

Redundancy and reorganisation can be painful to those directly involved. However, concern should not be limited to those made redundant, and it is important that attention and care also be directed to those that remain. If little or no focus is placed on the positions that remain there is the real prospect that more problems will follow.

Yours sincerely



**John Walley**  
**Chief Executive**