

# Decruiting in a shipping company

[Business](#), [Company](#)



## Introduction

The crisis has hit the shipping company strongly. Demand slowed down. With the expected prolonged impact of the crisis, the company has to lay up half of its fleet and rationalize its workforce to remain viable until the turnaround in economic conditions and demand hikes up again.

Average demand in the previous months has gone down radically with some of the ships operating at substantially decreased loads at barely breakeven. At the same time, prices have also gone down due to the heightened competition among shipping companies over the remaining demand. By continuing the existing operations, the shipping company would start to accumulate losses. This requires the laying up of six bulk carriers affecting the employment of the crew.

Not only does the company have to berth half of its fleet indefinitely but it also has to reorganize and trim down its entire workforce to bring down operating costs. Decruitment encompasses this activity. Decruitment refers to the process of decreasing the number of workers in an organisation (Robbins & Coulter, 2005). Of the forms of decruitment, the shipping company can either end the employment of seven assistants from the five departments who have been in the company for two years or less or enforce early retirement by offering some senior managers incentives to retire earlier than the normal age of retirement.

Communication constitutes a valuable tool in managing decruitment. This enables organization-wide understanding of the situation and the rationale for the selected decruitment option. Otherwise, this would create more

human resource problems for the shipping company. Claims for unjust termination could emerge when the reason for the termination or early retirement is unclear or unarticulated. Low morale could result from retained employees not fully understanding the situation of the company. (Robbins & Coulter, 2005)

#### Rationale for Decruitment in the Shipping Company

The effect of the crisis on the shipping company led to the laying up of six ships resulting in the inevitability of layoff of crewmembers and decruitment. Two options for decruitment exist. One is the decruitment of seven assistants from operations, purchasing, supply, technical, and safety and quality departments. The other is the implementation of an early retirement plan for senior staff, specifically the chief accountant, one safety and quality manager, and the retired fleet manager acting as consultant. The recommended option is the implementation of the early retirement plan for three senior staff. This finds support from a number of justifications.

Based on the scope of the decruitment (Kleiner, 2004), this does not involve entire departments but targets only selected individuals. As such, the timing becomes important. The two senior staff will be up for retirement, in two years and five years respectively while one senior staff has already retired and acts as a consultant to the shipping company. Since the reason for the reduction in employees is valid, a fair early retirement scheme just means the speeding up of the period prior to the actual retirement of employees but placing them in a similar position if they were to retire in the next two or five years.

In using objective measures for selecting employees targeted by the decruitment, the primary goal is to have the best-qualified employees following the decrease in workforce (Kleiner, 2004). An objective measure that justifies the selection of the three senior personnel for the early retirement scheme is the elimination and reorganisation of job functions. The laying up of six vessels and contraction of the workforce means that certain positions would have to be discarded.

The consultant position together with the safety and quality manager could be discarded in a manner that could still support the effectiveness of the shipping company. The consultant is already retired and just assisting in management temporarily or occasionally. Other safety and quality managers could take on the management of this area. Although the chief accountant position remains, the senior manager holding this position is due to retire in two years and there are likely to be qualified personnel who can already take the position.

A weighing of the costs and benefits involved in decruitment necessitates the reduction of costs as outcome, although in the short term an increase in costs is expected (Kleiner, 2004). Costs and benefits could be monetary or non-monetary. Monetary benefits could be increased revenue generation while non-monetary benefits could be improved performance of the surviving employees. Monetary costs include severance pays, legal fees, and settlement of claims while non-monetary costs include decline in motivation.

The benefits of decruiting the three senior staff includes decrease in operating cost, provision of promotion opportunities for lower level employees and improved performance from a rationalized workforce. The

costs of implementing the early retirement scheme are separation incentives, human development plans for the surviving employees, and other costs involved in planning and executing the scheme. The weighing of potential costs and benefits show that the shipping company would incur costs during the implementation of the early retirement scheme in handling the decruited and surviving employees.

However, in the long-term, the shipping company would experience reduction in cost from the decruitment through a decrease in operating cost from a rationalised workforce. As long as the early retirement plan complies with labour standards, there would be no problems such as claims or litigation and demoralisation of the workforce. The reduction of costs in the long-term concurrent with the achievement of the benefits also depends on the implementation of an effective human resource management activity for retained employees. Nevertheless, the expected reduction in cost justifies the decruitment of the three senior staff.

A consideration of the possible legal issues that could arise in the early retirement plan covers possible claims based on agediscrimination since the targeted employees for decruitment are all senior staff. The length of service is directly related to the attachment or even loyalty to the company so that this could lead to resistance. In addition, there are also legislations and labour standards that prevent the selection of employees to decruit based on age alone. (Kleiner, 2004) A consideration of the rationale for selecting the early retirement plan for the three senior staff indicates that age is not the sole consideration.

One of the selected staff was already retired and serving a consultative position and the other two are up for retirement in the next two and five years. The primary reasons for their selection are loss of job function and rationalisation of the organisational structure. There is no indication that the workforce profile after the decruitment process favoured younger employees or those with shorter service. As long as the early retirement scheme is similar to the retirement plan of the company, there should be no legal issues in the decruitment process.

### Strategies for Decruitment in the Shipping Company

To prevent or mitigate likely problems arising from the decruitment, the process of reducing employees should be strategic (Kleiner, 2004). This requires planning, directed implementation, and evaluation. There are three considerations in implementing a decruitment plan. First, is open and truthful communication to both the people leaving and remaining in the company. Second is the development of a fair and honest compensation package and other assistance for decruited employees. Third is the provision of counselling and other necessary support for surviving employees. (Robbins & Coulter, 2005) These are necessary considerations in ensuring benefits and preventing or mitigating problems during the decruitment.

The encompassing activity or strategy is effective communication. This is because communication explaining the situation would ensure understanding on the part of decruited personnel and surviving employees.

On the part of decruited senior staff, there is need for communication to explain clearly and completely the need for the reduction of personnel and clarify the early retirement scheme. The communication is contained below.

The company regrets to inform you of workforce reduction via an early retirement scheme. The economic crisis has led to significant declines in the revenue generation of the company and the laying up of half of the shipping vessels. The company has experienced continued declines in revenue generation and profitability in the last two quarters. To ensure survival, the company commenced cost-cutting activities and exercise of prudence in expenditures. Despite these efforts, the reduction of the workforce has also become necessary.

In recognition of your valuable contribution to the company, the early retirement scheme includes a reasonable separation pay as well as all salaries and benefits due as contained in the employment contract, the policies of the company, and statutory regulations. The company also provides a transition assistance program to secure an acceptable retirement situation for all personnel leaving the company. Confidentiality and non-disclosure provisions in the employment contract would apply. The human resource department is open in addressing any clarifications or concerns that you may have.

The communication has a number of parts. One is the direct mention of decruitment through the early retirement scheme. Another is the explanation of the reasons. Third is the identification or listing of the early retirement plan including the coverage or scope. Fourth are reminders of the

obligations of personnel towards the company as contained in the employment agreement and company policies.

Apart from the decruited senior staff, there is also need to communicate the situation to the crew of the six ships for lay-up. There is a difference in the communication to the decruited senior staff and the crew of the six ships because of differences in situation. The senior staff are retired or up for retirement in the next years so that an attractive and reasonable early retirement scheme would comprise incentives to secure agreement with the decruitment. The crew of the ships are not necessarily nearing retirement, which makes job security a bigger issue. This implies greater resistance to the layoff.

Communication becomes an important tool in addressing resistance by easing the concerns of the employees over job security and rightful compensation (Kleiner, 2004). The rationale for the reduction of ship crew is justified by the need to lay up six ships because of the slowdown in trade. However, the crew need to understand the situation and appreciate the support that the company is willing to provide. The communication is shown below.

The company regrets to inform you of the laying up of six ships and its crew. In the past two quarters, there have been marked declines in exports and imports making it unprofitable to continue operations at full capacity. Inevitably, revenue generation have also been declining. The lay-off is temporary and the turnaround of the economic crisis leading to growth in trade would again support the operations of these ships and the recall of the crew. The company has allocated an unemployment compensation for all



crewmembers together with the payment of all compensation and benefits due under the contract terms, policies of the company, and statutory provisions. The human resource department is also open for clarifications, questions and all issues related to the layoff.

The communication addresses a number of important areas. One is the situation of the company leading to the laying up of six ships and its crew. Another is the nature of the lay-off as temporary but dependent on improvements in economic conditions. Still another is the support that the company is willing to provide to employees. Communicating to the crew of the ships for lay-up indicates concern for its employees. Open communication reflects good faith.

### Conclusion

Decruitment refers to workforce reduction for various reasons. There are ways of implementing decruitment. Regardless of the means of decruitment, necessary human resource management considerations emerge. The concerns are justification of the decruitment, which are cost reduction and operational efficiency, as well as compensation and other support assistance due to the affected employees. Strategic decruitment facilitates the achievement of the objectives of employee reduction. Open and clear communications is an important tool in ensuring effective decruitment by ensuring openness of the company to its employees as a sign of good faith and addressing of issues such as objective selection of employees leaving the company and due compensation to reflect concern over employee welfare.

### References

Kleiner, B. H., 2004. Workforce reduction guidelines. *Southern Business Review* , [Online] 1 Apr. Available at: <http://www.allbusiness.com/human-resources/986002-1.html> [Accessed 10 April 2009]

Robbins, S. & Coulter, M., 2005. *Management* . 8<sup>th</sup> ed. New York: Prentice Hall.