

Hiring freeze and organisational costs: A case of Masvingo general hospital, Zimbabwe

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Abstract

The research sought to investigate the effectiveness of hiring freeze on reducing costs at Masvingo provincial hospital, a referral hospital in Masvingo Province of Zimbabwe. A case study research design was used in this study. Questionnaires and interviews were used as methods for data collection at Masvingo Hospital. A sample size of 46 nursing staff out of 119 nursing staff was used. In addition, the researcher used stratified random sampling technique to draw information from respondents. Both primary and secondary methods of data collection were used. Data was analysed using thematic data analysis. After analyzing the collected data, it was found that hiring freeze increases absenteeism and high labour turnover which in turn increases recruitment costs. It was also found that freeze often results in increased stress, decreased morale and lack of work life balance for survivors because of increased responsibilities and obligations. The researcher recommended that organizations must consider alternatives to hiring freeze say manpower planning, redeployment, loaning out and pay cuts.

Keywords: hiring freeze, costs, pay cuts, redeployment and loaning out

Introduction

The constant repositioning of organisations is of utmost importance in an economy that is staggering towards stabilisation and firms have to choose either to change or remain constant and perish (Lashley, 2001) ^[23]. Hiring freeze becomes inevitable so as to address the issue of labour costs and hedge organisation against collapse. Globally, organisations that adopt proper human resources strategies are assured of an enhanced performance. The health sector is well known for having many employment challenges since they train nurses and doctors but they do not employ them (Mbengeranwa 2014) ^[27]. Furthermore, the sector is associated with high maternal mortality rate, understaffing, bloated operational cost and survival syndrome (Daily news 20/02/2014) ^[9]. In addition, the Sunday mail of 3-10 August 2014 ^[34] also reported that complaints of poor service delivery from state hospitals were fuelled by doctor / nurse ratio estimated to be 1:8000 which is well above the recommended 1:500 by the World Health Organisation. It is therefore critically important to understand human resources strategies used in this industry. Hiring freeze strategy therefore become a major area as it addresses the issues of costs and hedge organisations against collapse. There is evidence that there is a positive correlation between hiring freeze and organisational performance (Kearney consultants, 2009) ^[19]. However, the problem is that the current understanding of hiring freeze and its impact on firm performance in the health sector is barely sufficient. Despite the growing body of knowledge on the utility of hiring freeze strategy in organisations, grey areas still exist on whether generalisability of hiring freeze practice in the developed economies is possible among emerging economies like Zimbabwe. It is therefore against this background that a research be conducted to assess the effectiveness of hiring freeze on cost reduction.

Background to the problem

Hiring freeze comes about due to a plethora of variables

interlinked by specific, related events. These variables can be broadly classified within the confinements of the economic, environmental, political, economic, legal, social and technological (PESTEL) climate within which the company operates (Gwisai, 2006) ^[15]. Lashley (2001) ^[23] states that the constant repositioning of organisations is of utmost importance in an economy that is staggering towards stabilisation and firms have to choose either to change or remain constant and perish. Hiring freeze becomes inevitable so as to address the issue of labour costs and hedge organisation against collapse. Despite this realisation among small and large organisations, not much information is recorded in the literature on the effectiveness of hiring freeze on cost reduction in developing economies especially in the health sector. Mbengeranwa (2014) ^[27] posits that there is a significant growth in the training of health personnel in Zimbabwe and it cost \$99 000 and \$27 000 to train a doctor and a nurse annually respectively. He further state that the health sector train and cannot absorb all the trainees due to economic challenges and this leaves the sector with untold suffering and problems ranging understaffing and training costs. The adoption of hiring freeze strategy has proven to be an integral part of organisational success. As a result, many organisations are placing more emphasis on the most effective ways of working especially those that lead to the most efficient use of human resources (Sheeham, 2013: 1; Mahapatro, 2010: 62) ^[33, 25]. Failure to do this might culminate in organisations experiencing high staff turnover, low profitability, low productivity and business shrinkage (Omolo, Oginda & Oso, 2012: 143) ^[30]. Research has shown that there is a positive relationship between hiring freeze and cost reduction (Katua, Mukulu & Gachunga, and 2014: 11) ^[18]. However, empirical evidence on the influence of hiring freeze on health sector performance in the emerging economies sounds to be negative. Labour market outlook of (2009) revealed that UK companies faced financial problems from 2008-2009 which affected their performance and 50% of the firms used hiring freeze policy to

reduce their costs and enhance organizational performance. In support, a survey by CIPD (2009) [7] to ascertain the impact of hiring freeze on cost reduction and organisational performance among 900 UK employers found that on average firms are saving approximately 27000 pounds per employee when using hiring freeze strategy and this enhances performance of firms. In addition, a research by A.T Kearney consultants (2009) [19] among US Automakers observed that United state firms were facing numerous problems ranging from organisational performance, growth, survivals and labour costs and to hedge their firms against collapse, they used the hiring freeze strategy. The research found that a handful of the firms have done so systematically enough to make a lasting impact.

In contrast, a survey by DOT Public Transport Division (2006) [11] on the effectiveness of hiring freeze as cost reduction strategy in the Public Transport Division in Europe found that hiring freeze created a backlog of hiring needs. DOT survey also observed that hiring freezes were the most widely used cost containment initiative, used by approximately 70% of respondents and they found that in many of the situations described in the interviews, the interviewees revealed that rather than being a hiring freeze there appears to be more of a hiring chill where positions can be filled with permission from the administrator and this help to explain why DOT division costs were reported as unchanged. In some instances hiring freeze had forced the public transportation department to hire a consultant at a higher cost than a regular staff person. In support of the DOT research findings, Cascio (2009) [6] postulates that hiring freeze often results in increased stress, decreased morale and lack of work life balance for survivors because of increased responsibilities and obligations.

Companies operating in Zimbabwe were not spared from the challenges of increased cost and poor organisational performance. Sutcliffe (2013) [36] argues that, Zimbabwe has long been considered a country in crisis. In support, Matombo and Sachikonye (2010) [26] revealed that Human Development Index stands at 173 out of 187 which is a sign of crisis. Zimbabwe’s entrenched economic crisis saw inflation peak at 231 million per cent in 2008 and unemployment rate of 94%. The Financial Gazette of 12 February 2015 has it that, thousands of people working in Zimbabwe were pushed out of employment abruptly without pay or benefits as companies abruptly terminate jobs and close shops due to economic, social, political and technological factors. Murray (2013) [29] propounds that Zimbabwe used to feature in all southern African overland itineraries but virtually all of the companies ceased operations in the country with the exception of a few tentative companies including Masvingo general hospital.

The Sunday Mail of 3-10 2014 [34] reported that the country’s nursing schools produce over 1500 graduates every year but recruitment of nurses as applied to other public sector jobs has been frozen since 2012, as the government battles a high wage bill gobbling up to 73% of national budget. Having this it means the health sector is faced with a harsh reality that their human resources are bloated and they embarked on hiring freeze. The Sunday Mail of 3/10/2014 [34] further revealed that as a cost cutting strategy and to enhance organisational performance, government froze 400 nurses and doctors posts countrywide despite the fact that the country’s public health system has a 2500 staff deficit.

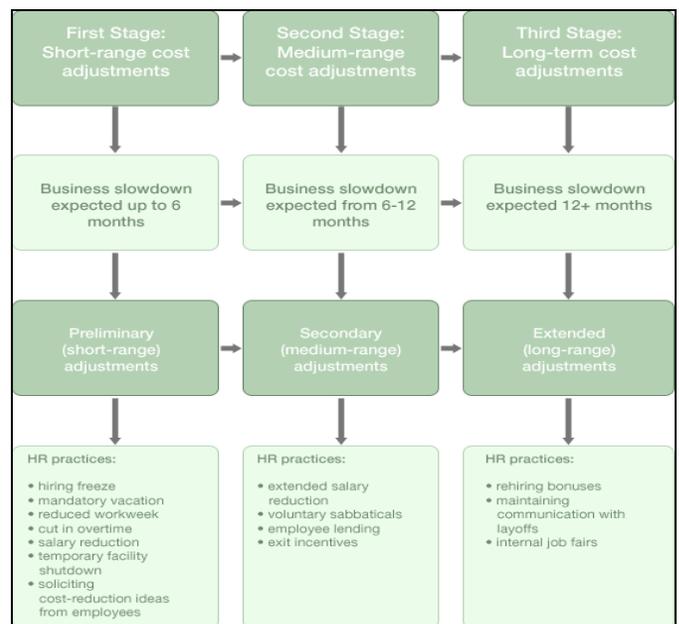
An in-depth analysis into the labour costs, productivity and the staff complement of Health Sector revealed a mismatch that

could not be sustained. The human resources mandate was to strategically redeploy, reassign employees within the organization and to reduce payroll costs through the identification of excess staff and encouraging retirements in order to match productivity with the available human resources. However this initiative did little to save the health sector from its operational challenges. Voice of America 29/02/2012 revealed that the health sector is severely understaffed as evidenced by 3074 increase in typhoid cases. In addition Dr Mbengeranwa argues that Zimbabwe is spending sums to train health personnel which they cannot employ and it costs \$99 000 to train a doctor and \$27 000 to train a nurse annually. The Southern eye of 27/01/2014 [37] also revealed that 565 mothers per 100 000 in labour die due to the fact that the health sector is understaffed and fight against high maternal mortality rate becomes a nightmare. In addition, the Daily news of 20/02/2014 [9] revealed that hospital performance is being jeopardised because of widespread nurse shortages due to hiring freeze.

There is extensive empirical research on hiring freeze and organisational performance (which is the main focus of this study) which has been conducted in developed economies of United Kingdom and United States. However there is little evidence from developing economies to collaborate the findings. To the knowledge of the researcher the study on the impact of hiring freeze on cost reduction has not yet been done in Zimbabwe. This study attempts to address this gap, because it is believed certain strategies are being unquestioningly applied in the less developed economies without due regard to the economic constraints that limit their applicability in this different context.

Literature Review

This research is guided by Vernon’s (2003) [39] and George’s (2004) [13] cost reduction model



Source: adapted from Vernon (2003) [39] and George (2004) [13]

Fig 1: Framework of cost-reduction stages

Cost-reduction stages

Figure 1 shows the three timeframe-related timeframes. Each

phase comprises of several cost adjustments that produced a variety of human resources practices. Vernon (2003) ^[39] postulates that the first stage of the cost-reduction represents short-range cost adjustments in response to economic forces. Hiring freeze is one of the adjustment strategy used by organizations to cut costs and enhances organizational performance.

Hiring freeze

Serbu (2012) ^[32] defines hiring freeze as a tool used to reduce workforce in a sufficient and timely manner. He further states that there are two types of hiring freeze namely full and partial freeze. In addition, George (2004) ^[13] defines hiring freeze as a mild form of downsizing and reduces labor costs in the short term. He further states that firms continue to hire new employees while cutting jobs at the same time.

Factors influencing hiring freeze

According to Dennis (2003), there are five major factors that influence staffing levels in organisations. The major factors are explained below.

Government regulations

Regulations can influence how a company goes about hiring, training, compensation and even disciplining its workforce. Failure by organisations to comply with the government regulations might result in the imposition of sanctions. The operations of the Ministry are governed by the Public Service Commission.

Available labour pool

Staffing levels are influenced by the pool of labour that is available. If the skill needed is in high demand in the industry, organisations might be reluctant to attract such skills as they will be associated with high costs.

Level of growth and economic conditions

Companies undergoing aggressive growth and rapid expansion may make it necessary for its human resources department to focus on recruitment and staffing. Growth or expansion is usually associated with changes in the required staff establishments; therefore an organisation might consider raising its staffing levels to cater for the increased scope.

Use of technology

The use of technology is also another factor that influences staffing levels. The use of technology might cause an upward or downward shift in the staffing levels. If employees are replaced by machines, it might mean a reduction in staffing levels. If new machines require more staff to operate them, it might mean an increase in staffing levels.

Ways of reducing costs

There are various alternatives, which are considered in a bid to reduce costs.

Recruitment freeze

CIPD (2009) ^[7] posits that hiring freeze is often the first stage in a cost-cutting process, and has been a fairly widely observed practice among private sector employers in the past year. They further argue that freeze enables an organisation to reduce its staff headcount through natural wastage without need for

redundancies. According to the LMO survey, one in two employers is adopting this strategy at present.

Terminating temporary agency contracts

This alternative conveys the same cost advantage as a recruitment freeze and has the added advantage of immediate implementation, thus resulting in quick savings (CIPD, 2009) ^[7]. This is also often an early stage option and widely used, since the employer can simply terminate the agency worker contract without having to incur any redundancy costs. The LMO survey finds 44% of employers adopting this alternative

Temporary lay-offs or short-time working

Employers may lay off employees. This practice according to CIPD (2009) ^[7] tends to be most often observed in the manufacturing sector, and overall adopted by 15% of employers responding to the LMO survey and it enables the employer to save on payroll costs during the period of lay-off or short time working, but employees may be entitled to a guaranteed payment, which is a right to a minimum rate of pay for a day on which work is not provided.

Pay freeze or pay cut

Pay freezes and cuts are relatively easy methods of cost-cutting to implement, assuming pay increases and bonus payments are not guaranteed within employment contracts (CIPD 2009) ^[7]. The survey further review that pay cuts, however, will usually need to be agreed as part of a change to employment contracts. Pay freezes are currently widespread throughout the private sector, though wage cuts are less in evidence (being implemented by 7% of organisations according to the LMO survey).

Hiring freeze and costs

Recruitment freeze is one of the defensive strategies an organization can adopt to cut costs or to make the organization more productive and profitable. Baumolet *et al.* (2003) ^[2] argue that recruitment freeze reduces organizational slack and operating costs, streamlines operations and enhances effectiveness towards making an organization more competitive. In support Kozlowski *et al.* (1993) ^[21] assert that freezing recruitment enhances organizational efficiency, reduces costs and improves organizational performance. A study Vecchio (1991) ^[38] at Savvy Construction in Italy on the impact of freezing recruitment on employee loyalty and performance found a positive correlation between hiring freeze and loyalty and performance. Contrary, a study by Adkins (1995) on the impact of freezing recruitment on shop floor workers performance at Obit (Pvt) Ltd in Mexico revealed that 75% of the responses collected from the administered questionnaires were experiencing stress. The managerial staff highlighted increased absenteeism and high labour turnover in an interview conducted by the researcher. The study further showed that stress dissatisfactions, increased absenteeism and high turnover was due to increased workloads and resulted in poor service delivery. In addition, Cascio *et al.* (1997) postulate that recruitment freeze has a deleterious effect on firm performance. Perceived outcomes may not be achieved in all organisations which attempt to freeze recruitment (Rehman and Naeem, 2012) ^[31]. It was further established by the same authors that there are chances that the organisations may face some weaknesses and threats which may badly affect overall

performance.

In addition, a study by Gitonga (2010) on the effects of hiring freeze on employee and organisational performance in Kenya at Telkom Company (Embu) revealed that out of the 210 questionnaires administered, 80% of the questionnaire responses showed that freezing recruitment at Telkom failed to improve employee and organisational performance. A study by Mekgoe (2008) at Damloy Manufacturing Company, South Africa cements the Gitonga's (2012) [14] Study.

Madrick (1995) suggests that about 30% of the organisations which freeze recruitment are faced with deteriorate productivity and profitability. In support, Kim (2009) [20] states that recruitment freezes tear the organisation instead of improving organisational profitability and productivity. Jim (2003) further proposes that recruitment freeze means that critical revenue-generating and revenue-generation positions go unfilled. Obviously, when there is no one in a revenue-generating position, there is a lost opportunity to generate revenue every day that the position remains vacant.

Gyu-Chang and Jong-Sung Park (2002) examined the effects of freezing recruitment on financial performance and employee productivity in Korea. The study aimed at exploring the effects of freezing recruitment on both financial performances in terms of profitability, efficiency and employee productivity. Six year longitudinal financial data of 258 listed Korean firms between 1997 and 2002 along with survey data of 2000 was analysed. Using multiple regressions, the study investigated the relationship between freezing recruitment and three measures of organisational performance: return on assets, asset turnover, operating income per employee, sales per employee and value added per employee. The research's first findings were that firms implementing a recruitment freeze tend to suffer more financial difficulties than their counterparts.

Research Methodology

The research adopted a case study research design in which both qualitative and quantitative techniques were used. The case study was chosen because the researchers had insufficient funds to carry a census of all hospitals in Masvingo. Results of the findings will be used to infer to the population of all Hospitals in Zimbabwe.

Study site

The study was carried out in Masvingo province because it is highly convenient to the researchers since the researchers stay in Masvingo.

Data collection and sampling methods

The study used a sample of 46 nursing staff from a population of 119 nursing staff. The researchers used a stratified random sampling technique. The researchers used 37 per cent of the population, which is way above the recommended 10 percent by Best and Khan (2003). Questionnaires were used as appropriate research tools to reveal sensitive issues which respondents would otherwise feel uncomfortable to talk about in an interview. A pre-test survey was conducted in order to evaluate the validity and reliability of the questionnaire. Questions that proved to be unclear to the respondents were modified, rephrased or discarded. Key informant interviews were also used to obtain in-depth data from the selected few.

Data entry and analysis

The data collected were analyzed using descriptive statistics or frequency distribution expressed in percentages and mean item score (MIS-Using 1,2,3,4 and 5 Likert Scale). Data interpretations were based on the results that emerged from the analysis.

Table 1: Frequency Distribution and Descriptive Response of Participants

NO	Statement	N	SA	A	N	D	SD	MIS
1	There is a positive correlation between hiring freeze and cost	46	2	2	1	40	1	2.2
2	Economic condition is the major cause of hiring freeze	46	44	1	0	1	0	4.9
3	Pay cuts and freeze is the best way of reducing costs	46	10	0	0	30	6	2.5

Key: SA = Strongly Agree; A = Agree; D = Disagree; SD = Strongly Disagree; MIS = Mean Item Score

Findings and Discussion

Statement one which focused on the correlation between hiring freeze and costs showed affirmative rejection response (MIS=2.2). The findings are consistent with a study by Adkins (1995) at Obit (Pvt) Ltd in Mexico. The study revealed that hiring freeze increased absenteeism and high labour turnover which in turn increases recruitment costs. In addition, a study by Gitonga (2010) on the effects of hiring freeze on cost reduction and organisational performance in Kenya at Telkom Company (Embu) revealed that out of the 210 questionnaires administered, 80% of the questionnaire responses showed that freezing recruitment at Telkom failed to reduce costs and improve organisational performance. A study by Mekgoe (2008) at Damloy Manufacturing Company, South Africa cements the Gitonga's (2012) [14] Study. From the interviews conducted the minority were of the view that there is a positive correlation between hiring freeze and costs. Their sentiments were echoed by Labour market outlook of (2009) which revealed that UK companies faced financial problems from 2008-2009 which affected their performance and 50% of the firms used hiring freeze policy to reduce their costs and

enhance organizational performance. In support, a survey by CIPD (2009) [7] to ascertain the impact of hiring freeze on cost reduction and organisational performance among 900 UK employers found that on average firms are saving approximately 27000 pounds per employee when using hiring freeze strategy and this enhances performance of firms. In addition, a research by A.T Kearney consultants (2009) [19] among US Automakers observed that United state firms were facing numerous problems ranging from organisational performance, growth, survivals and labour costs and to hedge their firms against collapse, they used the hiring freeze strategy. The second statement revealed that majority of the respondents accepted the statement, (MIS=4.9). The findings are in line with Dennis (2003) [10] who posits that economic condition is one of the variables that forces companies to embark on a hiring freeze. Sharing the same views is Lashley (2001) [23] who posits that, the constant repositioning of organisations is of utmost importance in an economy that is staggering towards stabilisation and firms have to choose either to change or remain constant and perish. Additionally, Gwisai (2006) [15] states that hiring freeze comes about due to a

plethora of variables interlinked by specific, related events. These variables can be broadly classified within the confinements of the economic, environmental, political, economic, legal, social and technological (PESTEL) climate within which the company operates. There was a balance of thoughts on statement 3 (MIS=2.5). The findings are in line with CIPD (2009)^[7] which state that there are many ways of reducing costs ranging from pay cuts, pay freeze, hiring freeze, reduced week and sort time working. The best way of reducing costs depends on various conditions under which a company operates.

Conclusion

The study recognizes that hiring freeze increases organisational costs and as such organizations must consider alternatives to hiring freeze say manpower planning, redeployment, loaning out and pay cuts. The mean item score for each statement has been shown on the table in which statement 2 topped (MIS= 4.9) while statement 1 ranked last (MIS= 2.2).

Acknowledgement

The researchers would like to acknowledge the patience and dedication of the participants without whom our work would have been a mammoth task to perform. God bless you.

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