Limitations on Employment Relations Authority and Employment Court in Employer Restructuring: Lessons from "Teague v Pyroclassic Fires Limited, now Pyro Fires Limited"

Introduction

The Employment Relations Authority (ERA) and Employment Court play a crucial role in addressing employment disputes, including those disputes related to restructuring by employers. However, there are certain aspects they explicitly refrain from making decisions about. In this blog post, we'll explore a couple of the limitations imposed by these authorities as mentioned in the "Teague v Pyroclassic Fires Limited, now Pyro Fires Limited" case to gain insights into these boundaries.

Understanding the Limitations

It’s essential that when embarking on a restructuring process, the employer follows the correct processes and has a genuine reason for restructuring.

While the ERA and Employment Court are responsible for resolving disputes arising from employer restructuring, there are areas where they won't make decisions. Some of these limitations include:

Business Decision-Making: The authorities generally refrain from intervening in the substantive business decisions made by an employer. If an employer can demonstrate a genuine business need for restructuring, the ERA and Court are unlikely to challenge the decision.

Commercial and Operational Changes: Decisions related to the commercial direction or operational structure of a business fall under the purview of the employer. The ERA and Court do not interfere unless there are identified violations of employment law.

Management Prerogative: Employers have the prerogative to manage their workforce and make decisions regarding staffing, provided they comply with relevant employment legislation. The authorities don't substitute their judgment for that of the employer unless there's a breach of law.

Teague v Pyroclassic Fires Limited, now Pyro Fires Limited Case

An employee, Roger Teague, was employed by Pyro Fires from August 2015; initially as the shop manager in a sales position and then after March 2019, as the Business Development Representative. His title was later changed to Business Development Manager.

On 14 October 2021 Mr Teague's employment ended by reason of redundancy and approximately five months later he saw what he thought was his previous position advertised as a vacancy on an employment website, but with a different title. He unsuccessfully applied for the role and then raised a personal grievance challenging the termination of his employment, stating that it amounted to a constructive dismissal.

The ERA considered the case and concluded that the restructuring and Mr Teague's subsequent resignation did not constitute a constructive dismissal. The Authority found that the restructuring process was a legitimate business decision made in good faith.

In this case, the Authority explicitly noted the limitations it adhered to, particularly its reluctance to interfere with genuine business decisions and management prerogatives. The fact that the employer demonstrated a legitimate business reason for the restructuring played a pivotal role in the Authority's decision.

The Authority noted that "it does not substitute its own judgement for that of the employer when called upon to assess decisions by an employer that a position has become superfluous to its business needs and that the worker holding the position had to be dismissed because there were no suitable alternative roles for that person in the business." It said that "when considering whether such decisions were justified, the Authority must determine whether the employer's actions, and how the employer acted, met the objective statutory standard of being what a fair and reasonable employer could have done in all the circumstances at the time."

The ERA noted in its decision, that the Court of Appeal (in GN Hale & Son Ltd v Wellington Caretakers etc. IUOW (1991) 1 NZLR 151 (CA) at 155) "accepted [that] an employer is entitled to make their business more efficient for example by abandoning unprofitable activities, re-organisation or other cost-saving measures and a worker does not have the right to continued employment if the business could not run without them."

Conclusion

There are certainly many obligations on employers who are thinking they may need to initiate a restructuring. However, the ERA and Employment Court will draw a line about what is not for them to decide, as is demonstrated in the "Teague v Pyroclassic Fires Limited, now Pyro Fires Limited " case, when it comes to decisions for restructuring. Employers must then ensure that their decisions are well-founded in genuine business

needs and adhere to employment legislation, to avoid disputes and potential legal challenges.

Do not hesitate to have a no-obligation discussion with me, if you think your business or organisation may need to consider a restructuring at some point in the future.