Downsizing a Workforce – Some Pointers in Change Management

With the nation still in the throes of a receding recession and layoff decisions and bankruptcy reorganizations the order of the day, most employers have become experts in downsizing as of late. However, what becomes common becomes ordinary, and when we start viewing something as an ordinary process not deserving our special attention, then slips and silly mistakes are bound to happen.

Careless mistakes and failure to observe the pros and cons in something as important as downsizing the valued workforce of an organization can lead to indelible and irreparable losses. This article serves as a primer or checklist; take it whichever way you want to, of principles to be kept in mind when downsizing your workforce.

**The Definition of Downsizing:**

As seen by the management: *Downsizing involves a set of activities, undertaken on the part of the management of an organization and designed to improve organizational efficiency, productivity, and/or competitiveness.*

As seen by employees: *Downsizing is essentially ‘the planned eliminations of positions or jobs.’*

As viewed by HR experts: *Downsizing constitutes a reactive and defensive or proactive and anticipatory strategy implemented by management that inevitably makes a significant impact upon a company’s size, costs, and work processes, as well as a firm’s shape and culture. Downsizing implies planned contraction of labor resources by an organization.*

**Causes that Call for Downsizing:**

The causes that compel organizations to move towards downsizing can be briefly listed as under:

1. Cost reduction efforts in response to circumstances beyond control of the management
2. Proactive downsizing to make an organization leaner, meaner, and more responsive in managing cyclical business declines and manage overstaffing tendencies
3. Reduction of labor costs by applying downward pressure on wage demands
4. Reaction to temporary changes in economy or technology
5. Mergers and high number of consolidations

**How Downsizing is a Consequence of Company Culture:**

1. Firms with small shareholder values have higher rates of downsizing
2. Employee-centered firms have lower rates of downsizing
3. Firms where CEOs have financial backgrounds have higher rates of downsizing
4. Firms that act in a network have higher rates of downsizing
5. Firms in highly competitive industry sectors have higher rates of downsizing

**Consequences of Downsizing on an Organization:**

There is a sizable amount of research literature that proves the role of proactive management is vital in downsizing and that there is little evidence supporting the overall
success, effectiveness, and efficiency of downsizing when evaluated from all perspectives including financial, organizational, and human resources.

Positive consequences of downsizing

1. Lowering of overhead costs
2. Reduction in bureaucracy
3. Faster organizational response time and decision-making
4. Smoother communication and increase in transparency
5. Increase in entrepreneurship
6. Increased productivity in tolerant employees

Negative consequences of downsizing

1. Downsizing can send negative signals to capital markets and stakeholders
2. Downsizing produces a crisis mentality focused on immediate needs at the expense of long-term needs
3. Downsizing generates a lack of innovation with less tolerance for risk and failure associated with creative activity
4. Downsizing leads to greater politicization of the organization environment as special interest groups organize and become vocal
5. Downsizing leads to decreased morale and decreased productivity
6. Downsizing leads to increased number of conflicts and a loss of trust
7. Downsizing leads to increased levels of individualism and disconnectedness hindering teamwork
8. Downsizing leads to lack of leadership and an increased level of resistance to change leading to a protectionist stance

Downsizing is a complex affair that can hardly be encompassed comprehensively in a short article or even in a single book, rather it needs a library, and a great mass of research literature does exist on downsizing. However, balancing all factors that bear upon any organization with respect to downsizing, it remains a reactive strategy of last resort and a proactive strategy that is continual in smart organizations.

Sources: