

## The Impact of Forced Layoffs:

### How to avoid the negative consequences of laying off staff

*This Research Briefing is a service from BC HRMA's research group. Our aim is to make it easier and quicker for HR professionals to find and apply the latest and best people management insight to their challenges and projects. This paper contains a concise and practical summary of a recent academic finding that should shape your HR practices.*

#### Summary

Forced layoffs and restructuring have become common strategies for companies struggling to compete, however these approaches rarely achieve the key company objectives such as cost reduction and increased levels of efficiency, productivity, profitability, and competitiveness. A broad range of research shows that HR professionals play a key role in enabling their organization to restructure effectively, achieve cost or productivity objectives, without creating unintentional organizational costs.

Forced layoffs (sometimes termed downsizing) refer to the planned elimination of jobs or roles in order to save costs. However, multiple studies cited in the report by Gandolfi<sup>1</sup> show that downsizing does not save money, and instead may hurt companies' results because the retained employees become less trusting, less engaged, and more apt to look elsewhere for work.

#### Why Forced Layoffs Don't Work

Forced layoffs have become an oft-used strategy for companies wanting to regain a competitive edge. First used during the recessions of the 1980s and 1990s, the approach has become a common method for companies to make sharp cost reductions, at least for a short period of time. The financial logic of the process is to incur a one-time cost to gain subsequent annual recurring savings.

However, in several studies conducted since the practice became mainstream, and cited in the articles by Gandolfi and Cascio<sup>2</sup>, companies often experience *higher* costs as the result of their forced layoffs. In order to fill in

#### Security preferable to pay

One poll conducted by a major cable news organization asked whether Americans would rather take a pay reduction of 10% or see their organization reduce its labour force by 10%. More than 80% of those who responded chose the pay cut.

<sup>1</sup> Gandolfi, F. (2008, April). Learning from the Past -- Downsizing Lessons for Managers. *Journal of Management Research*

<sup>2</sup> Cascio, W.F. (1993 February). Downsizing: What Do We Know? What Have We Learned? *The Executive*, Vol. 7, Published by: Academy of Management

knowledge gaps left by staff reductions, many companies hire consultants at higher rates than their former employees' salaries. And those companies resort to contracting the same employees who were recently let go, but at much higher hourly rates.

When companies look only at the balance sheet, they ignore the organizational costs of cutting so many staff. Without certain key long term employees, some companies are simply unable to replace lost understanding about the organization, its customers, and processes. This leads to lost revenue, poor productivity and sub par results.

The stock market may respond positively to companies that announce extensive restructurings, and may briefly lift the company's share price. But in the long term, the majority of companies that have instituted forced layoffs did not realize improved financial performance either on the balance sheet or on the stock exchange.

One of the reasons forced layoffs fail to create a more efficient organization is because the layoffs are often targeted at job cuts where greater emphasis is given to reducing numbers and eliminating a specific job description instead of considering the individual employee. When forced layoffs fail to consider the individual and their links to the organization— obtained through their years of experience, rapport with certain customers or other department members and their intelligence about the organization – the layoffs may unintentionally cause reductions in productivity.

There are three types of people affected by forced layoffs: victims, survivors and executors.

- 1. Survivors** who retain their jobs after a round of forced layoffs suffer increased stress, absenteeism and distrust, while their work quality and productivity decrease. Survivors also feel guilty for still having their jobs and are often depressed, angry and fearful. Decreased loyalty to the organization ensues because survivors experience increased workloads, or a mis-fit resulting from corporate re-organization that fails to account for employee talents. They feel disempowered and begin looking elsewhere for work.
- 2. Victims** of forced layoffs lose their livelihoods, and are prone to stress because of the sudden change in their financial lives and the uncertainty about their future work prospects. Laid off employees can also face health, marital and family problems as well as depression, anxiety and isolation.
- 3.** While there has been little research into the long term effects of being the **executor** who implements the forced layoffs, some evidence suggests that the responsibility for carrying out the layoffs is emotionally distressing and difficult professionally.

## Alternatives to layoffs

Other strategies can help businesses control costs more effectively, increase productivity and boost profitability. Employing a consultative process that includes every employee and the full support of every level of the organization from the C-level on down, some organizations have invoked across-the-board salary reductions. Other measures such as voluntary layoffs, a reduced work week, and unpaid leave or vacation time have been effective in cost savings. According to research cited by Cascio<sup>ibid</sup>, organizations can plan better and make more effective choices when they include the following six principles as they weigh the benefits of implementing a strategy of forced layoffs:

1. Ensure that the layoffs are implemented after careful consideration of the roles slated for elimination and the employees in those roles. Human Resources professionals are the source of this information, and their insight into the way that roles and people function will provide key insight into any re-structuring decisions.
2. Clearly identify both short-term strategies such as reduced hours, unpaid leaves, sabbaticals and long-term strategies including organizational redesign during a drive to reduce overall staff costs.
3. Pay equal attention to the employees who are going to lose their jobs and those who remain. For those who are leaving, provide fair severance, offer opportunities for re-training, and outplacement resources. For the remaining employees, provide multiple two-way communication channels (especially face-to-face) between leadership and employees to give them many opportunities to share their concerns, ask questions and deepen their understanding of the business realities. Make sure those who remain are aware of the support and resources provided by the company to those who were laid off. This makes a significant difference to future staff productivity and mitigates the increase in voluntary turnover that follows every forced lay off.
4. There may be ways to target cost savings that are not related to staff costs. Engaging employees through supplying accurate data can be effective in identifying redundancies, excess costs and inefficiencies.
5. When looking to reorganize it is important to focus on creating efficiencies by geography or within specific product lines. Making an across the board cut is not an effective way to cut costs and will do even more damage to the organization's ability to compete.

### Principles for success

Companies can successfully complete a restructuring that helps their bottom line when they focus on their employees and adhere to the six cited principles.

For example, one negotiated settlement between United Rubber Worker and Uniroyal Goodrich Tire saw the workers concede a pay cut, vacation time, fewer holidays and work-rule changes in return for job security during the life of the contract.

6. Staff reductions and the associated cost reductions can be achieved when the focus of the restructuring is connected to a well communicated and viable new organizational strategy and goals. Rather than focus reductions in staff on cost saving it is more effective to create a compelling future vision and purpose for the organization and then align your people resources to this.

### **Implications for HR Professionals**

Before a company decides to try and save costs by cutting staff they need to engage with their HR group to understand the likely consequences, unintended costs and challenges relating to this approach. All the research into this area demonstrates that simply removing people to cut costs does not work.

To be an effective support to the organization when facing this type of situation the Human Resources group needs to have detailed knowledge of how work is carried out in the organization, as well as how the types of relationships among units and employees contribute to the company's strategy and goals. Through good quality talent management processes and an understanding of how the business works, HR professionals should have a strong influence over how any form of restructuring is targeted and implemented.

The HR group is also in a position to broker agreements with employees throughout the organization, including identifying appropriate concessions and illuminating areas of overlap and inefficiency. In order to be a strategic player in this type of business challenge the HR group needs a detailed understanding of the business, the competitive environment and the people and skills which make it all work. With this level of insight, and the relationships to be part of the decision process, then the HR group is properly positioned to mitigate or avoid the many negative impacts which come from the forced layoff of staff.

This article is based on the following research papers:

Gandolfi, F. (2008, April). Learning from the Past -- Downsizing Lessons for Managers.  
*Journal of Management Research*

Cascio, W.F. (1993 February). Downsizing: What Do We Know? What Have We Learned? The Executive, Vol. 7, Published by: Academy of Management



***We'd like to hear from you!***

Tell us how the insights from this study could affect change in your organization. What practices in your organization are most in need of attention when looked at through the lens of forced layoffs? Contact us at [research@bchrma.org](mailto:research@bchrma.org).