



DOWNSIZING OR LAYOFFS AND ITS IMPACT ON THE HUMAN RESOURCES OF THE ORGANIZATION

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ABSTRACT

Downsizing, rightsizing, or laying off employees is a restructuring strategy of the organization. It is a strategically planned removal of larger number of people to increase organizational effectiveness. Downsizing has some immediate results like increased profits, managing credits, avoiding bankruptcy, re-organization, or redesigning, and getting rid of the unproductive or disengaged employees. However, the main disadvantages of layoffs or downsizing is loss of skilled workers, low morale, as the employees experience stress, guilt, or even envy resulting into a negative rivalry in the organisation. Further, layoffs can adversely affect the morale and motivation of the existing employees and also their commitment to the organization, leading to their poor performance. So, it is important for the Human resources (HR) managers to effectively administer the impact of layoffs on the employees of the organization.

The impact of the layoff may be long term or short-term depending on the further employability of the person. If the phase of unemployment lasts up to six months or more, it may affect the survival of the person and his family as well.

This article provides an understanding of layoffs as well as the impact of layoffs on the employees through digging deep into the existing literature and other survey reports in this field. Further, it explains the role of HR managers throughout the process of layoffs, to ensure the motivation of existing employees as well as enhancing the overall effectiveness of the organization.

This conceptual article attempts to explore various aspects related to layoffs through diving deep into the existing literature. It elaborates the concept and rationale of layoff along with explaining its impact on the human resources of the organization. Further, the article elaborates on the role of HR professional in mitigating the impact of layoffs on the laid off employees as well as on the survivors of layoffs.

KEYWORDS: Downsizing, Rightsizing, Layoffs, Restructuring, Role of HR Implications.

INTRODUCTION

In the fast changing, highly competitive business landscape, layoffs are becoming a strategically planned reality for many companies. Layoff may also be referred to as restructuring, rightsizing, or downsizing, reduction-in-force (RIF), termination, reengineering, and voluntary separation options (VSO). A layoff is an act of the employer wherein the organization decides to terminate the employment of a large number of people, usually not because of their poor performance; instead, there are other reasons. Thus, a large number of workers cease to continue their employment and are

suspended from the organization. Whatever name one may refer to, layoff is the cessation or permanent/ temporary termination of the employment of employees by their employer, without any of their faults. Though, layoffs are designed to enhance the productivity, performance, and overall effectiveness of the organization, hence they are seen as the instrument to prevent companies from bankruptcy and closures. However, whenever layoffs are executed, they bring a great financial and emotional shock to those who are immediately impacted by it. Often, layoffs are said to be executed when the economic condition of the company is deteriorating, or the sales and market shares are declining or economic slowdown. Hence, it is a strategically chosen cost cutting measure which is necessitated for the survival of the company facing financial crisis, so it is chosen as a means to prevent huge financial loss or permanent shut down.

There can be various reasons for layoffs or downsizing. Sometimes, companies decide to sack some of their non-productive employees, non-performing branch, or project etc. to cut down costs and prevent bankruptcy or shut down. The mergers and acquisitions may also enforce layoffs, as the upcoming firm intend to go lean after M&A. A layoff may also be enforced by faulty administration or mismanagement due to which it is difficult to run the company profitably. Layoffs or rightsizing can be a result of declining stage of the product or industries (such as steel, mining, newspaper, etc.). Outsourcing of a few routine processes may also cause layoffs of a larger segment of employees. Simple and straight rightsizing- an organizational restructuring strategy, may also lead to lay-offs. Layoffs or restructuring are often method of shedding of the unnecessary financial burden of non-performing departments or projects and give relief to the company from exorbitant total cost. Fig 1 shows a few companies which have laid off since January 2023.

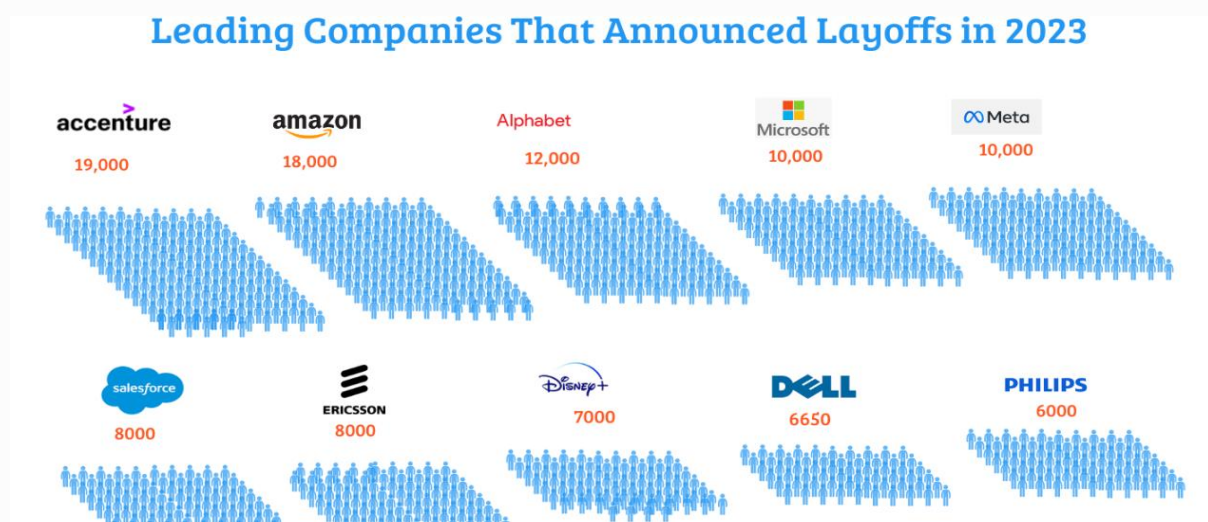


Fig 1. Layoffs by Leading Companies in 2023. (Source: INTELLIZENCE)

However, sometimes restructuring or downsizing may be the only alternative left with the company for survival, as it may bring some relief for the organizations by cutting salary budget and other related expenses or by developing competitiveness by curtailing the number of less productive personnel, but for the both the types of employees, those who are laid off and those who survived a particular cycle of layoffs, it always has devastating impact. The immediate financial loss to the employee due to layoff affects the physical as well as emotional well-being of an employee, by causing lost finances, lost confidence, self-respect, existential anxiety, depression, or more severe illnesses. Finding the next job would also come as a clout as it may come with a demotion or a pay cut or may take unprecedented time etc.

Hence, in order to avoid such damage to the employees as well as to the corporate image of the company, it is imperative for the company to make sensible staffing decisions after analysing and understanding the market trends regarding the demand for the product and envisaging ROI and risk-return ratios.

LITERATURE REVIEW

1. Basu Debasmita, (2023). "The Harsh Reality of Layoffs: Understanding Why Companies Resort to Downsizing" Kindle Edition.

Now-a day's companies are looking for the ways to improve their performance. The most common method is to go for layoffs or downsizing, which have a lot of impact on the employees and the organizational culture. This book analyses the reasons for the layoffs and their impact on the employees and the organization as well. The book explores the reasons of layoffs, like economic ups and downs, technological upgradation, organizational redesigning or restructuring, performance, and productivity issues. It also assesses the psychological as well as economic impact of downsizing on the employees, it may be fear, anxiety, loss of confidence, loss of income, and problems in finding new jobs. Further, the impact of layoffs on organizational culture, such as loss of morale, motivation, reduced creativity and innovation and poor performance. This book also suggests substitutes to layoffs, like transfers, employee upgrading and upskilling, and temporary work arrangements, developing flexible workforce, and making cross-functional team to develop all-rounders. This book offers important insights into the reasons of layoffs, and practical ways to face the challenging situation.

2. Noe, Hollenbeck, Gerhart, Wright., (2018), “Fundamentals of Human Resource Management”, 9th Edition, Mc. Graw.

This provides a complete, concise introduction to the management of human resource required by every business manager who wants to understand the people aspect of the organization. The book also elaborates the way to use HRM in the everyday work environment. It provides a complete explanation of all the aspects and functions of human resource management. The focus of the authors is on how HR practices can develop competitive advantage for the firm in today's challenging global business world. The book provides an effective way of learning the concepts and strategies of HRM. The books offer real life examples to give better clarity and understanding to the learner. It successfully develops the interest of the reader by engaging them in the content provided.

3. David M. Noer. (2010)” Healing the Wounds: Overcoming the Trauma of Layoffs and Revitalizing Downsized Organizations”. Jossey-Bass Publisher.

This book explains an important leadership task of maintaining coordination between the employee and employer and restore productivity in spite of the uncertainties of the business world. It provides a remedy to the layoff survivor sickness such as anger, fear, worries, anxiety, and depression. It suggests a deeper and fulfilling employer-employee relationship. The book combines case studies and original research that addresses with both the downsized organizations and layoffs survivors. David Noer is an expert who coined the term layoff survivor sickness. The book focuses on the leadership and coaching methods to guide the leaders to lead at the time of crisis, along with a cutting-edge approach for the employees to re-establish themselves as per the requirement of their jobs and organizations, which are also substantiated with the help of suitable examples.

4. Datta. Basuil., Radeva. (2014), “Employee downsizing and organizational performance”, Cambridge University Press.

This book explains the reasons for increasing trend of downsizing and layoff. According to the author, the increased competitive pressure due to globalization and rapidly dynamic industry conditions is impacting the employment conditions both for the employees and employers. To survive in this competitive environment, the firms are forced to constantly re-evaluate their operative strategies including the current cost structures and operative effectiveness enhancing options. For that reason, downsizing has become an essential part of organizations. Though downsizing is not a new phenomenon, but recently, we have witnessed such high levels of employee suspensions for any reason but the job performance. Earlier the job reductions used to be temporary, wherein the redundancy was temporary, and employees used to be recalled when business conditions improved. But these days, firms opt for employee layoffs on permanent basis. Such redesigning and rightsizing steps are undertaken to manage the pressure of high competition. Further the companies want to cut down the payroll costs to prevent plant closures. Currently, employee downsizing has become an important tool in the hands of the managers seeking enhanced efficiency and improved firm performance.

5. Kenneth De Meuse, Mitchell Lee Marks, (2003), “Resizing the Organization: Managing Layoffs, Divestitures, and Closings”, John Wiley & Sons.

This book on “Resizing the organization: managing layoff, disinvestments, and closings” is offered by Society for Industrial and Organizational Psychology. This offers much needed theoretical information, best business practices, and excellent techniques for executives and leaders who should navigate their organizations through the challenging processes of downsizings, mergers, acquisitions, and other similar transitions. This book helps in applying organizational psychology theories and practices in the change management of the organization.

6. Dewitt, Lee Rocki (2014), “Good downsizing”, Cambridge University Press.

According to the author, the layoffs or downsizing is an intentional selective reduction in the number of employees of an organization. It may also include reduction of both physical and/or human capital (DeWitt, 1998). Downsizing often has detrimental effect on those who have to go (Leanna and Feldman, 1992; Newman, 1988; Uchitelle, 2006). So, downsizing could not be envisaged as a great strategy. But some research claim’s that the downsizing could be good. This book presents the insights into good aspects of downsizing, including the relationship between downsizing and a firm’s performance. According to the author, the downsizing doesn’t surface without a valid reason. Reduction in productivity and organizational performance, enforces workforce reductions. Another reason is poorly implemented downsizing, leading to huge employment reduction which triggers negative internal and external reactions. Further, immediate financial savings are experienced when employment reduction is implemented. The author explains various aspects of the downsizing and attempts to focus on the good outcomes of downsizing.

RATIONALE BEHIND THE LAYOFFS

Rightsizing or layoffs are becoming increasingly common, these days, as a preferred basic step to sustain in the business in the face of exorbitant costs, high competition, and scarcity of resources. To remain competitive in the market, the companies try to experiment different ways, one such way is by cutting costs in any aspect or field of their business that they can, including human resources. Thus, layoffs have become almost an unavoidable occurrence in the modern business world. Considering the challenges to which the business is exposed and the threatening financial status, the organization may rightfully decide to lay off some of the less productive workers. An employer may choose to lay off an individual or an entire group of employees. It may be a temporary or permanent decision. However, now-a-days, there are many other drivers of layoffs, following are considered the most common:

1. **Over or Wrong Selections:** Over or wrong selections can be one of the reasons for layoffs. Sometimes companies acquire a large number of employees in the expectation of surge in the business and market share which may need to be corrected later by layoffs. Additionally, sometimes the company may choose such employees which don’t prove to be the right fit for the company, under such situation company is left with no other option but to layoff such employees.
2. **The Cost-Cutting:** The most common reason for layoffs the cutting of cost burden during poor financial status of the company. such financial status may be because of the lower productivity, fewer sales, or lack of financial support of the investors. Whatever may be the reason of such financial problem, an organization can successfully reduce its financial burden by eliminating some less productive departments and laying off the some of the staff members.
3. **Relocation of the Business:** The founder may decide to change the original location of the organization to take advantage of some Govt policy or reduction in operative costs, to cut down the transportation cost or to shifting to a region of the country for its environmental advantages or locational advantages or may be for any other reason. Hence, those employees who are not able to relocate themselves along with the business have to be compulsorily laid off.

4. **Closure of one line of operations or the whole business:** If a company is planning to curtail the level operations or shut down or switch to an altogether different line of operations by closing down the existing one, it'll be forced to lay off some work force, keeping back only those who are required to maintain the level of operations or suitable for the new line of operations. Whereas in case of winding up the complete staff will be laid off.
5. **Mergers and Acquisitions:** A merger and acquisitions, might have been executed for any reason, but generally it has an adverse impact on the employment level of both the companies because they cause delicacy. Moreover, the leaders of the post-merger company, who bring their own new vision and policies, often opt to lay off some of the employees. Specifically, to have a team of their preference or to eliminate redundancy besides cutting down the financial burden.
6. **To manage declining business operations:** Depending on the stage of product life cycle or declining demand in the market, a company may decide to shut down one segment or a branch of the business and layoffs of the employees becomes unavoidable
7. **Outsourcing options:** Sometimes instead of Recruiting, training, managing, and retaining employees the company may prefer to outsource the routine type of operations. In such situations companies choose to layoff the employees who were doing that work. This helps the company to save on account of salary as well as various other expenses like training cost, PF contribution of the employer, medical and insurance expenses etc.
8. **Technological Advancements:** With the rapid advancement of technology, increasing automation and ease of working, the demand for workers for the same work gets significantly reduced, in such situation some employers prefer to lay off their staff to manage their costs burdens. However, if the employee work to upgrade their skill they may be transferred to some different positions.
9. **Cancellation of a Big Project:** Many times, a project gets cancelled due to lack of required investments or certain unforeseen and uncontrollable reasons, as we seen many such cases during COVID 19 period. In such situation the company is left with no other option but to layoff the people hired for that project.

However, layoffs can also be seen an opportunity for growth. Such employees are enforced by the circumstances to re-evaluate their career goals and explore new opportunities. In such situations, they may also develop new skills and experiences that can help them in their professional growth future career development. As far employees are concerned, instead of frightening from the occurrence of a situation of layoff, the employees should equip themselves to strongly deal with the situation and move forward strong and victorious.

IMPACT OF LAYOFF

Though the advocates of layoffs list the rationales of layoffs and refer it as the preferred growth and survival strategy for the companies, yet they are not always the best solution for the long-term growth of the companies, and the detrimental long-term impact on the individuals and companies can't be undermined. According to the experts it may take quite long to recover from the trauma of losing a job as experts rank it above the trauma of divorce and also the trauma of sudden impairment of vision and hearing etc. Furthermore, the companies going for layoff have witnessed adverse impact on the productivity, morale, and motivation of the layoff survivors which hampers the effectiveness and the future success of the organization. The following table shows the list of companies which have opted for layoffs along with the total size of workforce and the number of employees laid off in 2022, indicating the percentage of layoffs.

Layoffs have impacted thousands of workers since May 2022

COMPANY	TOTAL WORKFORCE	ESTIMATED NUMBER OF PEOPLE LAID OFF	PERCENT LAYOFFS
Twitter	7,500	3,700	50%
Kraken	3,600	1,100	30%
Yahoo	8,000	1,600	20%
Snap	6,446	1,300	20%
Lucid	7,200	1,300	18%
Hasbro	6,700	1,000	15%
Stripe	8,100	1,100	14%
Zoom	8,700	1,300	15%
Meta	87,314	21,000	24%
Inded	14,600	2,200	15%
Lyft	5,064	700	13%
Vimeo	1,270	140	11%
Salesforce	79,000	8,000	10%
Shopify	10,000	1,000	10%
NPR	1,000	100	10%
Goldman Sachs	49,000	3,200	7%
PayPal	29,000	2,000	7%
Roku	3,300	200	6%
Spotify	9,800	600	6%
Alphabet	187,000	12,000	6%
Microsoft	221,000	10,000	5%
Dow	38,000	2,000	5%
Dell	133,000	6,650	5%
News Corp	25,000	1,250	5%
Netflix	11,300	450	4%
Disney	222,000	7,000	3%
3M	90,000	2,500	3%
Accenture	760,000	19,000	3%
Boeing	156,000	2,000	1%
Amazon	1,544,000	27,000	2%

Size of workforce prior to layoffs is as of end of Q2 2022 for Snap, Q3 2022 for Meta, Lyft and Amazon and Q4 2021 for Twitter and Netflix.

Source: Company announcements and government filings

HAMZA SHABAN/THE WASHINGTON POST

The above table infers that the companies are in an unprecedented rush to layoff and downsize in order to gain competitive edge over the competitors, to handle the pressure of the investors and to optimise the use of scarce resources at the disposal of the company. Though laying off a few people is not a new phenomenon, but this recent alluring unique wave of layoffs is different from the earlier incidents of layoff not only because of the difference in the total number of companies opting for layoffs but additionally many more companies are considering for the layoffs, strikingly many of them would be doing it for the first time ever. However, the main cause of concern is that the human resource of the company are fully neglected in this process and are pushed to a back seat to bear the maximum heat of the whole process. Following are the notable impact of layoffs on human resources of a company.

1. **Lost financial wellbeing and safety:** The worst impact that most laid off employee get is that sudden financial burden, both short-term and long-term, they are out of the job, the financial inflow gets interrupted which gets coupled with no certainty about future financial inflows. This hampers the financial wellbeing and standard of living of the employee as well as his family. Moreover, the cumulative effect of unemployment or underemployment is further detrimental.
2. **Lost trust:** Layoffs break the trust of employees, especially the efficient ones, who put in their best efforts for the organization and suddenly organization says them goodbye. In this way they are left shaken and shocked, as it is psychological aspect of the contract of employment which gives a sense of security and financial well-being. Although, the layoffs are not based on the performance of individual employees rather they occur due to the financial situation of the company, yet they rapture the effort- reward linkage and the trust of the employees. Further, the trust once broken is difficult to rebuilt.
3. **Social impact:** Layoffs, generally, have a destructive impact on an employee's personal, social, and professional wellbeing. More specifically, it may bring some unavoidable resentment or tension with the spouse or with the family members because of lack of purchasing power and other associated reasons as it may result into unavoidable debt and mental strain on one's spouse and family. He feels suppressed and guilty for none of his faults. A said unsaid question keeps haunting the laid off employee regarding his commitment and efforts to find a new job.
4. **Personal health and well-being:** The sudden loss of job has a damaging impact on a person's mental and physical health. It may cause acute or chronic mental ailments like high level of anxiety, stress, depression, risk of suicide, apathy etc. besides certain physical ailments like high blood pressure, heart disease or gastrointestinal disorders These symptoms can be further severe in case of long serving employee or if the layoff is sudden and unexpected.
5. **Post layoff underperformance:** The employees who survive the layoff also wrestle with anxiety, low morale, lack of motivation to work hard, poor efficiency, declining quality, deteriorating performance and productivity.
6. **Loss of Reputation:** Layoff damages the reputation of the organization as good employer. It affects the efficiency and self-esteem of surviving employees making it difficult to retain them and further difficult to attract better talent in future.

ROLE OF HR MANGER IN MITIGATING THE IMPACT OF LAYOFFS

The business world is wrestling with the recession and economic crisis, impelling organisations to lay off their human resources in order to save on their salary budget. The layoffs are making headlines these days and almost every business sector is drastically facing burn out with the recent layoff trends. However, amidst this appalling, though uncontrollable situation, the human resource professionals can play an important role in demonstrating the commitment of the organization for employee welfare by shouldering their fear, anxiety, and stress besides inculcating mutual trust. HR manger can support by following ways:

1. **Timely and Honest Communication:** In time information and regular updates helps to reduce uncertainty, fear, and anxiety to a large extent in addition to developing trust in the HR and management of the organization. The HR professionals should ensure that the employees are informed about the causes of the layoff and steps taken to ensure their wellbeing and to mitigate the impact changes to their benefits package as soon as possible.
2. **Ensuring Employee Well-being:** The HR manger should strive to retain maximum benefit for the employees at the time of layoffs. Though layoffs may be necessitating due to the need for cost cutting yet prioritizing employee well-being in order to minimize the impact of layoff on the employees is crucial both for the employee as well as for corporate image. The HR manger can also try to extend certain employee benefits, like healthcare facility for a specific period for laid off employees, especially for those dealing with chronic conditions with the help of health care scheme of the organization.
3. **Navigate the Transition:** The HR assistance is truly valuable during the layoff period. HR manger can support the employees by navigating the changes and challenges that come their way with career transition. The support programs, such as stress management workshops, resume-building workshops, and placement services to help employees face the threats of layoff in addition to exploring further opportunities and successfully settling in their new role.
4. **Compassion and Empathy:** Layoff has a lot of the emotional impact in additional to financial impact and damage. Each laid off employee deal with a unique mental and psychological situation. Hence, the HR should give them an actively listening and guide them through the tough times compassionately and empathetically. HR manger can also help them in identifying personalized solutions to their problems and in searching new job by utilising his/her contacts.
5. **Ensure Full Compliance:** As HR manger is the custodian of employee rights and welfare, he must ensure that all the laws, rules, and regulations related to Layoffs are fully complied and employee rights and interest are safeguarded.

In the chaotic times of mass layoffs, safeguarding the well-being and benefits of the employees is of paramount importance. This will help the HR manger to mitigate the negative impact of layoff to some extent along with fostering a positive work culture in the organization. This will also give a sense of security to the layoff survivors and inspire a sense of loyalty among them which is important for the success of the organization in the long run.

CONCLUSION

As restructuring and growth strategy, layoff are becoming a preferred strategy of the organizations. In spite of a number of reasons and rationale of the layoff, the fact is that it has a profound impact on the laid off employees. Losing a job can be a traumatic experience that can lead to feelings of shock, anger, sadness, and anxiety. It can also lead to a loss of identity and self-worth and existential anxiety. Which has a long-lasting adverse impact on the personality and performance of the person. Employees who are laid off face loss of income, difficulty finding new employment, poverty, psychological distress, and even higher risk of suicide and mortality. The remaining employees may experience decline in performance, engagement, satisfaction, and commitment, as well as increased turnover and reduced loyalty. The huge financial loss hampers their purchasing power and standard of living along with affecting the quality of life of the family members of the employee. If the period of unemployment extends longer, they might really have to struggle for their survival. However, layoffs can also be seen an opportunity for change and growth. The laid off employees are enforced by the circumstances to re-evaluate their career goals and explore new opportunities. In such situations, they may also develop new skills and experiences that can help them in their professional growth future career development. As far employees are concerned, instead of frightening from the occurrence of a situation of layoff, the employees should equip themselves to strongly deal with the situation and move forward strong and victorious.

The role of HR manger can take steps to mitigate the adverse impact of layoffs by providing proper information, safeguarding employee welfare, employee support services such as career counselling, skill upgradation assistance, extended severance benefits, and some financial assistance etc. Hence, by adopting the right strategies, HR leaders can help ease the burden on affected individuals and demonstrate the organization's commitment to their long-term success.

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