

13.6: Downsizing

Learning Outcomes

- Describe the effects of downsizing

Downsizing



Downsizing is when a company terminates a number of employees at the same time. Downsizing occurs for a number of reasons, most often to save money. Termination as a result of downsizing is unique in the sense that the employee is not responsible for their termination. Traditionally, employees are terminated for their conduct, behavior, or breach of contract. However, in a downsizing situation, termination is not prompted by employee behavior but instead is a business decision made to cut costs.

Reasons to Downsize

Before we can understand the effects of downsizing, we need to first better understand the reasons behind downsizing. Companies downsize for a variety of reasons including less than stellar economic conditions, a company merger or acquisition, or when a product or service is cut. Let's learn more about each reason.

Tough Economic Conditions



When economic conditions are poor, sales and profitability can suffer. When sales and profitability are down, some companies may need to make drastic cuts in order to stay in the green. In some situations, downsizing is a good option for cutting costs.

Merger or Acquisition

When two companies merge together, the companies need to restructure in order to meet their new needs. Restructuring may include eliminating certain roles altogether or reducing the workforce in certain departments. Companies that acquire another company may also downsize in order to meet the new needs of the company.

The End of a Product or Service

If a company is well staffed for a particular product or service that is then discontinued, they may need to downsize since there is no longer a need for such a large staff.

? PRACTICE QUESTION

<https://assessments.lumenlearning.co...essments/18198>

? What Is Rightsizing?

Another term associated with downsizing is streamlining or rightsizing. While downsizing and rightsizing essentially mean the same thing, there are a few nuances used to differentiate between the two. First, rightsizing is considered a restructuring of an organization which may include layoffs, whereas downsizing is specifically intended to reduce the size of an organization. In addition, the term “rightsizing” sounds more appealing than “downsizing.” Therefore, companies may use the term rightsizing to sugarcoat impending layoffs. Regardless of whether or not a company refers to it as downsizing or rightsizing, each term affects organizations in similar ways.

Is Downsizing Effective?



Do you believe downsizing is effective? Do you think the short-term benefits of downsizing are worth the long-lasting impact it can have on an organization? While the financial benefits of cutting costs is clear, the impact large layoffs have on the workforce is sometimes less than desirable. Some argue that downsizing has more negative consequences than positive ones. In fact, researchers from Auburn University, Baylor University, and the University of Tennessee, Chattanooga conducted research to determine if there was a correlation between companies that downsized and companies that filed for bankruptcy. Their research found that downsizing firms were twice as likely to declare bankruptcy than those who did not downsize^[1]. This study confirms how important it is to weigh all of the options before making a decision. It is vital for companies to compare possible short-term consequence with possible long-term consequences before deciding whether or not to downsize. Unfortunately, there is no easy answer or black and white solution. Each organization is unique and needs to consider downsizing within the perimeters of their current situation.

Sources

Doyle, Alison. “[What Is Downsizing?](#)” The Balance Careers. The Balance Careers, June 25, 2019.

1. Zorn, Michelle L., Patricia Norman, Frank C. Butler, and Manjot Bhussar. “[If You Think Downsizing Might Save Your Company, Think Again.](#)” *Harvard Business Review*, April 26, 2017. ↩

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