

13.7: Effects of Organizational Downsizing

Learning Outcomes

- Describe the effects of terminating employees during organizational downsizing

Terminating employees is never a fun task. Even the word “termination” sounds doomful, final, and permanent. People work to support their families and their lifestyles. Without a job, providing for yourself and those that depend on you is extremely challenging. Therefore, layoffs put former employees in a tough position and should never be taken lightly. Although downsizing may be deemed necessary, deciding to make large cuts in the company’s workforce is going to impact a large number of people, including those getting terminated and those who are being retained.

It is expected for employees getting laid off to be upset and surprised. Upon announcing company layoffs, employers may experience backlash from employees. Although these are normal short-term reactions and consequences of downsizing, there are a wide variety of long-term effects companies can expect to experience. Read the information below to learn more.

Loss of Knowledge and Experience

Companies invest a lot of time and resources into hiring and training employees. In theory, every employee should have the essential skills and knowledge base required to complete their job functions. Also, the longer an employee is with a company, the more information and skills they can acquire. Therefore, when employees are laid off during the downsizing process, the company loses more than just a warm body; they lose the employee’s knowledge, experience, and expertise. In addition, downsizing companies typically do not hire new employees, which means there will be a void instead of a replacement.



Increased Workloads and Pressure on Remaining Employees

When companies downsize, gaps within the workload are created. This adds pressure to the remaining employees to not only complete their current job functions, but also to pick up additional work to compensate for the terminated employees. The additional responsibilities, on top of their current ones, can create stress and pressure on remaining employees and negatively affect the morale and motivation of the team. In addition, when employees are bogged down in the day-to-day work tasks, there is little time left to learn a new skill or expand their current knowledge base. This can create a stagnant work environment and stunt current employees’ growth potential.

Loss of Trust and Security

Layoffs tend to put people on edge. For obvious reasons, terminated employees are feeling a sense of insecurity as they are being forced to leave the company and find other work. The remaining employees may also struggle with downsizing. Even if their job has not been cut, knowing that their company is willing to lay off employees to cut costs can be an unsettling realization. Although the remaining employees may be relieved to be spared from termination, there is oftentimes a loss of trust with management and a loss of comfort in job security.



Legal Issues

Although downsizing is legal in the United States, companies that choose to downsize may experience legal backlash, specifically from terminated employees. If employees that were laid off feel as though they were laid off due to discriminatory reasons, they may have grounds for a lawsuit. Legal consequences are not guaranteed in all downsizing situations; however, they are a definite possibility.

Client Relations

When a large number of employees are laid off, it may impact client relationships. If there are fewer people employed to handle clients and their accounts, the customer experience will suffer. Also, if clients had a great working relationship with an employee that was then terminated, they may be frustrated to have a new person assigned to their account. These frustrations may lead to a loss in profitability and customer satisfaction.

? PRactice Question

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As you can see, terminations during the downsizing process have a wide variety of consequences for an organization. Terminating employees is never easy and understanding how to handle downsizing with care is essential for maintaining a strong and effective work environment. Let's move on to the next section to discuss how to downsize without downsizing morale.

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