

A LINE ON LIFE

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The Flip Side of Downsizing *

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Since the 1980s, big corporations have been trying to deal with increased global competition. They needed some way to boost profits and still be competitive. Labor typically involves 60% of the cost of doing business. Therefore reducing the number of employees seemed to be a good way to cut expenses. In the last decade, over 90% of medium and large organizations have "downsized" – laid off workers. This has even happened in the public sector. As part of "reinventing government," President Clinton has cut 172,000 workers from federal payrolls.

William C. Howell is executive director of the Science Directorate of the American Psychological Association (APA). He does not see downsizing in glowing terms.

"The conventional wisdom is that downsizing is invariably good from a business standpoint. There are obviously lots of organizations where greater efficiency is needed and downsizing is appropriate. But the idea that downsizing is the answer to every problem is probably suspect."

Former Secretary of Labor, Robert Reich, coined "the 7 percent rule." When companies announce downsizing, they can expect their stock to rise about 7%. Psychologist Wayne F. Cascio (University of Colorado Graduate School of Business, Denver) and his associates tested this assumption. They examined the performance of the *Standard & Poor 500* stocks over the last 15 years. Companies that had downsized – without making other changes – never outperformed other companies. Cascio found that companies that did the best had actually *upsized*. (However, we can't tell if the upsizing led to doing well, or if doing well led to a need to increase staff.)

Cascio argues that many companies don't understand that short-term savings do not equal long-term profits. Many management specialists indicate the destructive effects that downsizing has on the efficiency of the workers who are left.

"For hard-nosed financial managers, the well-being of employees is a secondary or even tertiary consideration. They just don't see that as important."

If workloads are not downsized along with the staff, the remaining workers can have psychological and physical problems. Stress from overwork can lead to psychological breakdown, depression or burnout. It can lead to workplace violence or accidents. Physically, workers can suffer from hypertension or heart attacks. Employees cannot function at 100% all the time.

A cornerstone of good management is effective communication with and from your employees.

Psychologists – or managers using sound psychological principles – can help companies and workers to adjust to problems caused by downsizing. During organizational change, the key to success is *keeping lines of communication open*. This goes against the grain of many managers. In contrast, psychologist John D. Kraft (consultant to U.S. Office of Personnel Management) indicates that failure to communicate will lead to worse problems.

"Whether it's good news or bad news, you have to let employees ask questions. Without open communication, the gossip chain starts and even worse stories get told."

Employers need to be more humane in announcing layoffs, but there also needs to be an attitude change on the part of workers. They need to start thinking more about themselves. No longer can they assume that companies will take care of them. They need to be emotionally prepared to deal with layoffs.

Psychologist James W. Pennebaker (University of Texas, Austin) helped engineers in one large company that had been downsized. Most of the engineers had started with the company after college and were now in their 50s. They had assumed that the company would stand by them until they retired. According to Pennebaker, *"They were probably the angriest, bitterest bunch of people I have ever seen."*

The engineers needed to develop more self-reliant attitudes. Pennebaker divided 63 of them into three groups. During each of five days, the first group spent a half-hour writing about their deepest feelings concerning the lay-off. A second group wrote about how they spent their time – a relatively neutral topic. A third group did no writing at all.

The groups did not differ in number of phone calls made, résumés sent out, or job interviews they had. However, the expressive writing group was more successful in getting jobs than the other two. Eight months later, 52% had found employment compared to 20% in the two other groups.

Pennebaker thinks the difference was in the way the engineers responded to lengthy job interviews. The other groups had not previously worked through their emotions related to their lay-offs. During interviews, they were more likely to complain about the way they had been mistreated by their previous employers.

"These people were dealing with things they hadn't dealt with before. When you get people to translate a traumatic experience into language, it helps them organize it and put it into a coherent framework."

Whether you are an employer, an employee, or laid-off, you might profit from these sources of information –

- Wayne F. Cascio's *A Guide to Responsible Restructuring*, Government Printing Office, 1995.
- Marilyn K. Gowing and others' *The New Organizational Reality: Downsizing, Restructuring and Revitalization*, APA Books, 1997
- James Campbell Quick's *Preventative Stress Management, Second Edition*, APA Books, 1997.

* Adapted from Rebecca Clay's "Downsizing backfires on corporate America," [*The APA Monitor*](#), January, 1998, pages 38-39.