



# The Downside of Downsizing

By

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Many organisations retrench employees frequently. Indeed, during a challenging economic climate, the choice to reduce a workforce becomes compelling. The many euphemisms for retrenchments - downsizing, rationalizing, economizing, and trimming for example - enable organisations to implement the same approach each year but label this process with a different term. Despite the ubiquity, and occasional utility, of retrenchments, most executives underestimate the potential damage of this process.

Unsurprisingly, the sweeping changes that coincide with downsizing often evoke stress, anxiety, and agitation in employees. Even the employees who remain at work after their colleagues have departed experience uncertainty and vulnerability. Initially, at least, their wellbeing declines and their satisfaction diminishes - sometimes marginally, but often expeditiously.

Perhaps more surprisingly, however, contrary to prevailing wisdom, downsizing usually impairs productivity and efficiency - often quite dramatically. When individuals experience an escalation in uncertainty, some circuits in the brain are inhibited, particularly systems that correspond to the right dorsolateral prefrontal cortex and hippocampus. When these circuits are inhibited, individuals tend to become erratic and inefficient.

Specifically, once these circuits are inhibited, the behaviour of individuals is divorced from their core values. Instead, they primarily strive to satisfy their immediate needs: an impending duty, a demanding colleague, or a testy manager, for example. These individuals seem to shift their focus frequently and unpredictably. During one hour, they might compel their subordinates to contact more clients; during the next hour, their direction might have switched to consolidating their ongoing accounts instead.

Not only is the behaviour of these individuals erratic, and thus inefficient, but their engagement, motivation, and loyalty also decline. Once dissociated from their core values, each task seems taxing rather than absorbing. As a consequence, engagement in employees subsides and, instead, a sense of burnout often prevails.

Indeed, according to recent research by Dr. Simon Moss at Monash University, the employees who are the most inspired - the most intuitive, empowered, and immersed in their work - are the very individuals who are more inclined to leave after retrenchments are implemented.

Exemplary employees do not usually work effectively and assiduously merely because of an obsession with pay, promotion, or status. These employees work effectively because they feel their work is meaningful; they feel their work aligns with their enduring values. Under stress, this awareness of their values declines. The only factors that had upheld their loyalty vanish once their colleagues are retrenched.

The employees, who remain, therefore, tend to work erratically and feel disengaged. These feelings have been shown to compromise decisions, impair creativity, obstruct cooperation, reduce resilience, and even compromise integrity. As a consequence, the processes, procedures, practices, and systems in the organisation all deteriorate, at least relative to their more innovative, cohesive, and resilient rivals.

And ultimately, an appalling paradox can emerge. Executives often recognize their anticipated benefits did not transpire. They recognise the organisation is less productive than is their competitors. In response to this inefficiency, within only a few years, they decide they need to retrench more employees, and the vicious cycle continues unabated. Thus, AIM Members should be prudent when considering downsizing and reducing their workforce.

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