

## **Retrench Warfare**

**By**

**Conrad Walters**

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Downsizing can cause more problems than it solves, writes Conrad Walters.

Do you ever get the feeling all the lay-offs and cost-cuttings going on are making you less efficient rather than more? You may be right.

Psychologists say shedding staff during tough times is frequently counterproductive for businesses, and managers can underestimate the long-term damage it causes. Staff left behind often suffer from plummeting morale, which may spiral into even deeper problems.

"One of the problems with downsizing is organisations actually become much less efficient," says Simon Moss, a senior lecturer in psychology at Monash University. He says in the wake of a retrenchment, stress alters how the brain functions and reduces the ability of managers to focus on the big picture.

Understanding the full impact of sackings on staff - and implementing them only as a last resort – can help companies better survive the downturn.

Moss says in the wake of redundancies, managers can become erratic. They focus on the immediate financial situation rather than the overall needs of the company. "Many of the activities of the organisation that are undertaken to follow one strategy become redundant the next month," he says.

As employees spot these inconsistencies and lose hope, the behaviour of managers can worsen.

"They start to press and coerce and encourage and almost shout at employees to improve productivity and efficiency," Moss says. But to no avail.

Faced with the pressures of constant change, employees become less engaged, due to unclear expectations and loss of motivation.

Moss challenges the "more with less" philosophy that drives some businesses to contract as economic conditions worsen. While it is often claimed this tactic increases productivity, the reality is different.

Although companies do see a surge in output as frightened staff adjust after a retrenchment, the change is only temporary in most cases.

"That assumption [of greater efficiency] does work for about a month or so . . . but it doesn't seem to last," he says.

What replaces any initial improvement is burnout.

A consultant in organisational psychology, Christopher Shen, agrees: "People can sustain for only so long."

He says a flood of short-term initiatives unsettles employees. "It's difficult for individuals to maintain an attitude of operating in an emergency scenario all the time," he says.

Shen believes managers often misjudge the severity of diminished morale following a retrenchment.

"Especially at the moment, during this global economic crisis as individuals and businesses and leaders catastrophise about the unprecedented decline in economic credit, I am seeing greater instances of staff members experiencing anxiety and stress and, consequently, disengaging with their values."

This has been particularly true in the financial and automotive manufacturing sectors.

He urges line managers and employees who are upset about retrenchments to focus on tasks that remain within their control, such as helping clients or making good products.

Shen says people should trust their instincts when making decisions. Many problems can be resolved empirically - how much weight can a steel beam support, for example - but some matters can be resolved best with emotional IQ, not spreadsheets. "We have gut feelings for a very good reason," he says.

While the two psychologists understand financial imperatives sometimes leave no option but to lose staff, they emphasise that managers need to recognise the long-term consequences.

"A lot of the problems we see during a recession are not necessarily linked to credit but [are] often a function of poor management during difficult times," Moss says.

He says it is possible for companies to produce modelling that would provide a glimpse of the psychological effects of downsizing but few organisations perform that analysis.

Managers often understand at a theoretical level that their actions can affect lives and hurt morale but often suppress those emotions, further distancing themselves from staff, he says.

Similarly, employees often change their behaviour and, instead of doing what is best for the company, simply do what they feel they must to keep their jobs. Creativity, innovation and productivity vanish - just when a company needs them most.

Importantly, Moss says, the deterioration in a business following a round of retrenchments often initiates its own cycle of problems.

"Further downsizing is usually required about a year or so later," he says.

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Based in Melbourne, Australia, Christopher Shen Consulting brings organisational psychology solutions to workplaces, helping people become stronger leaders and teams become better performers.

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