The Role of the Human Resource Department in Organizational Downsizing

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ABSTRACT

In preparation for an incoming economic recession, organizations in the United States and across the globe are now actively engaging in various downsizing tactics, such as layoffs and hiring freezes, to strategically reduce their workforce. The Human Resources department then has the important responsibility of effectively managing the impact of the downsizing process by mitigating the legal, ethical, and social risks that may arise as a result of layoffs, such as helping affected employees better manage the resulting stress, and empowering surviving employees to continue productivity. While most companies focus solely on continuing business operations after layoffs and reducing legal and publicity risks, not much is done to alleviate the stress so that the organizations’ remaining employees can better cope with their new situations. This paper provides a brief overview of the concept of organizational downsizing and its effect on employees. Additionally, the paper describes the function of the HR department in the downsizing process and concludes that the HR department has a responsibility to both surviving and affected employees. This paper then examines the responsibility of the department to both parties.

Keywords: Organizational downsizing, layoffs, survivor management, human resources, HR Responsibilities
recession or performance shock because they typically have larger workforces in comparison to single-segment organizations. Table 1 shows a curated list of popular companies that have resorted to reducing their workforce in the year 2022, most of which are diversified firms and have actively downsized between 5 - 20% of their workforce.

Table 1
Curated List of Notable Companies Currently Engaging in Layoffs in the United States

<table>
<thead>
<tr>
<th>Notable Companies that have Downsized</th>
<th>Period</th>
<th>Number of Downsized Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tesla</td>
<td>June, 2022</td>
<td>229</td>
</tr>
<tr>
<td>Peloton</td>
<td>February, 2022</td>
<td>4,150</td>
</tr>
<tr>
<td>Shopify</td>
<td>July, 2022</td>
<td>1000</td>
</tr>
<tr>
<td>GoPuff</td>
<td>March, 2022</td>
<td>400</td>
</tr>
<tr>
<td>Netflix</td>
<td>June, 2022</td>
<td>450</td>
</tr>
<tr>
<td>Robinhood</td>
<td>August, 2022</td>
<td>1,013</td>
</tr>
<tr>
<td>Redfin</td>
<td>June, 2022</td>
<td>470</td>
</tr>
<tr>
<td>BlockFi</td>
<td>June, 2022</td>
<td>170</td>
</tr>
<tr>
<td>Carvana</td>
<td>May, 2022</td>
<td>2,500</td>
</tr>
<tr>
<td>Vroom</td>
<td>August, 2022</td>
<td>647</td>
</tr>
<tr>
<td>Rivian</td>
<td>July, 2022</td>
<td>840</td>
</tr>
<tr>
<td>Invitae</td>
<td>July, 2022</td>
<td>1000</td>
</tr>
</tbody>
</table>


Downsizing is a strategic workforce reduction decision implemented by an organization to reduce labor expenses, boost profitability, and, in times of extreme economic volatility, prevent organizational collapse (Frone & Blais, 2020). While the projection of an impending economic recession and rising inflation rates are the leading causes of organizational downsizing today, other factors, such as technological disruptions to industries, mergers between two companies, corporate restructuring, or competitive rivalry, could also warrant company downsizing (Anekwe & Nwanah, 2021). Frone and Blais (2020) explain that irrespective of the reasons for downsizing, this decision creates two groups of workers. The first category describes affected workers who involuntarily lost their jobs (“affected workers”) and the second category describes workers who survived the downsizing process (“survivors”).

As many organizations are resorting to the use of hiring freezes and layoffs to downsize their workforce, much is expected of the Human Resources (HR) department to effectively
manage the human element of a downsizing process (Mujtaba & Senathip, 2020; Tsai & Yen, 2008). If the downsizing process is not conducted properly, it could lead to even more disastrous outcomes, ranging from legal issues and bad publicity to a reduction in remaining employees’ motivation and even higher turnover rates than expected. This paper aims to analyze the concept of organizational downsizing and examine the role of the HR department in mitigating negative outcomes, as well as the effect of downsizing on the two affected parties: survivors (the employees who have not been laid off) and affected employees (employees who have been laid off).

The Concept of Organizational Downsizing

Organization downsizing is described as a strategy adopted by a company to reduce the scale of its business operations in an effort to improve financial performance (Gómez-Mejía et al., 2016). Large payrolls in the past were seen as a sign of a company’s strength and success. Payroll is described as the overall cost of maintaining a workforce, such as employee salaries and wages, taxes and benefits (Saez et al. 2019). However, in the current economic climate and according to business news around the nation, having large payrolls is now seen as a liability, and organizations are looking to cut costs drastically.

While downsizing is generally viewed as a negative practice because of how it affects employees, and the organization as a whole, some studies have however shown that downsizing may be beneficial for regaining financial stability and strengthening a corporation. Table 2 describes some pros and cons of layoffs.

<table>
<thead>
<tr>
<th>Pros of Layoffs (Reasons)</th>
<th>Cons of Layoffs (Externalities)</th>
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<tbody>
<tr>
<td>Increasing profits, economic outlook, and overall company competitiveness.</td>
<td>Existing employees might be in a bind when knowledgeable and skilled workers are laid off. Consequently, customer service may suffer.</td>
</tr>
<tr>
<td>Cutting costs by reducing employee benefits and liability.</td>
<td>Current workers and laid off employees may risk suffering from occupational, psychological and other health issues.</td>
</tr>
<tr>
<td>Laying off high paid employees and replacing them with lower paid employees.</td>
<td>Limited employees within a company/department may lead to more unhappy workers, which in turn may lower company revenue.</td>
</tr>
<tr>
<td>Getting rid of disengaged workers that cannot “pull their own weight” (“dead wood”) and simply increase workload for other employees.</td>
<td>Laying off skilled workers may slow down production damage quality within the company.</td>
</tr>
<tr>
<td>Stockholders might receive a better return on their investments.</td>
<td>Attitudes become negative because employee thoughts of the possibility of easily being replaced and just being a number to the company.</td>
</tr>
<tr>
<td>Strategically planned layoffs lead to smarter organizations when tasks are properly revamped and reassigned (Mannino, 2010).</td>
<td></td>
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Ramdani et al. (2021) found that downsizing could affect an organization’s innovation outputs positively, especially when that organization is experiencing a shortage of resources. For organizations experiencing shortage or a lack of resources, downsizing has proven to yield positive results firstly because, employees may begin to compete with one another, leading to superior performance and increased creativity, out of concern that they would lose their jobs in potential future rounds of downsizing (Ramdani et al. 2021). Likewise,
reallocation of employees to form new teams will foster creativity because these employees will bring together knowledge from all areas of the organization, and these newly formed relationships could be a rich environment for creativity.

The downsizing strategy can also be used to restructure an organization with the intent of enhancing shareholder value (Goesaert et al., 2015; Jung, 2015). However, the negative impact of downsizing or layoffs cannot be ignored, and if not managed properly, they can detrimentally affect the organization’s overall effectiveness. Mujtaba and Senathip (2020) explain that downsizing could result in the loss of skilled and experienced talent, thus disrupting the flow of creativity within the organization. Likewise, downsizing may increase the stress levels on surviving employees (Dlouhy & Casper 2020). Harney et al. (2018) also assert that increased individual workload caused by downsizing could result in employee exhaustion.

A company can use various methods to downsize, such as layoffs, attritions, and hiring freezes. Arzuaga et al. (2021) classified the downsizing techniques into two categories: involuntary and voluntary terminations. “Voluntary terminations” are generally regarded as the less consequential form of downsizing, as it involves encouraging employees to volunteer themselves for retrenchment or early retirement by offering them attractive incentives (Arzuaga et al. 2021). On the other side, involuntary termination methods, which include strategies like hiring freezes, layoffs, diversifications, and shutdown of operational facilities, are more difficult to manage (Arzuaga et al., 2021; Hansson, 2017).

Notable business news sites such as Crunchbase, Business Insider, BBC, New York Times, and the Wall Street Journal have shown that most affected organizations in the United States are resorting to layoffs (terminating current employee contracts) and hiring freezes (not hiring new employees for a period) to downsize their staff. Layoffs refer to a downsizing technique that involves terminating employees using different deselection criteria such as individual performance, duration of employment, and sometimes, demographic characteristics like ethnicity, age (Arzuaga et al. 2021; Dwyer & Arbelo, 2012; Zatzick et al. 2015).

The Human Resource (HR) department is largely responsible for facilitating this process and managing the impact of layoffs on the two categories of dissatisfied stakeholders: surviving and affected employees.

**Human Resource Department’s Role in Managing Employee Separations and Downsizing**

Several studies have suggested that the role of an HR department is highly critical within organizations for different purposes. An organization’s major purpose is to create value to all its stakeholders in different capacities and develop a long-term sustainable framework (Oduyemi et al., 2020) and the HR department has the responsibility to implement this same value to employees, and also ensure that adequate workforce is readily accessible for a business (Patrick & Mazhar, 2021). Vermeeren et al. (2014) examined the function of Human resource management (HRM) and found that the effective implementation of HR practices is related to improved financial outcomes because it directly impacts the firm’s net margins, organizational outcomes because it impacts client satisfaction, and HR outcomes because the implementation of the right HR practices reduces turnover and absenteeism rates.

Patrick and Mazhar (2021) on the other hand, suggest that the HR department is important because it directs the workforce, which is the most important element of a successful business. Several studies have supported the claim that the main roles of the department are to ensure adherence to labor laws, implement recruitment and training initiatives, oversee the compensation and benefits structure within the organization, provide relational assistance to employees, manage employee performance, and oversee the selection process of employees to be laid off when the organization decides to reduce its
workforce strength (Gómez-Mejia et al., 2016; Patrick & Mazhar, 2021).

Mujtaba and Senathip (2020) suggest that the HR department is essential to the strategic planning and execution of downsizing efforts. This implies that irrespective of the means an organization chooses for downsizing, HR is central to managing this process. Mujtaba and Senathip (2020) further explain that the HR department has the responsibility to plan, execute, and ensure alignment of the layoff decisions with business needs, while also avoiding possible negative consequences at all costs.

The first responsibility of the HR department is to review the downsizing decision and consider how this decision will impact the organization in the near future. The second responsibility is to explore all of the available alternatives, such as pay cuts or a reduction in employee benefits and hours, and present these alternatives to the decision-makers. Next, the department has the responsibility of planning the downsizing by deciding on layoff criteria alongside executives and departmental managers. Finally, the department has the responsibility of supervising the downsizing process, restructuring, and managing the effects of the layoffs on affected and surviving employees (Mujtaba & Senathip, 2020).

Similarly, Gómez-Mejia et al. (2016) posit that the HR function during a downsizing process begins with notifying employees about the intended layoffs. According to the Worker Adjustment and Retraining Notification Act (WARN), a federal law in the United States, employers with one hundred or more employees are expected to provide employees sixty days of advance notice before being laid off (Addison & Blackburn, 1994). Though the role of the HR department in many organizations ends after the layoffs have been implemented, the HR department has two additional responsibilities to ensure the continuous running of business operations after the layoffs: to keep surviving employee morale high and to make the transition to unemployment smoother for affected employees (Mujtaba & Senathip, 2020).

Therefore, after organizational downsizing, the HR department is responsible for two types of employees: the surviving employees and the affected employees.

**Responsibility of the HR Department to Supervisors**

Survivors are referred to as employees who remain part of an organization after layoffs, restructurings, job cuts, or resignations have eliminated longtime coworkers (Makawatsakul & Kleiner, 2003). Leadership IQ, a leadership training and employee engagement survey firm, found that there is a general misconception that employees who survive layoffs are considered the lucky ones, and these surviving employees will not require any further special attention but would rather increase their productivity levels due to their contentment at still having a job. However, several studies have shown that layoffs can have a variety of detrimental repercussions on survivors, including psychological and physical health and drastically reduced productivity levels (survivor syndrome) (Andreeva et al 2015; Dlouhy & Casper, 2020; Frone & Blais, 2020; Gómez-Mejia et al. 2016).

The HR department is tasked with the responsibility of alleviating these concerns and managing survivor syndrome. “Survivor syndrome refers to the psycho-social problems such as increased anxiety due to uncertainty, feeling of loss, and risk aversion in employees who have survived cut-offs” (Samreen, et al. 2022 p. 2). Downsizing results in increased job demands (Harney et al., 2018), heightened feelings of job insecurity, and increased workload which will put more burden on the remaining employees (Dlouhy & Casper, 2020).

Surviving employees are often worried about their ability to perform the new tasks they are assigned. Gómez-Mejia et al. (2016) describe other potential impacts of downsizing on survivors as increased antagonism within the organization, higher absenteeism and turnover, reduced productivity and decreased job satisfaction. Van Dick et al. (2016) asserted that surviving employees lose their sense of organizational identity during layoffs.
Organizational identity is a social identification and a source of self-esteem for an employee (Ahuja et al., 2021), and thus the loss of this identity could potentially lower employees’ emotional attachment to the company (Van Dick et al., 2016). Hence, the HR department is responsible for alleviating these concerns and managing survivor syndrome.

**Survivor Management**

While few organizations provide programs to help the employees who have been affected by the downsizing decision, even fewer have programs to help survivors adjust to the new organizational changes (Appelbaum, et al. 1997). The goal of the HR department, in conjunction with line managers, should be to ensure that surviving employees are kept motivated and rebuild loyalty within the organization.

The first step toward effective survivor management is developing an effective communication strategy to discuss the layoff (Mujtaba, & Senathip, 2020). Poor communication creates a misunderstanding of the organization’s goals and strategic mission and surviving employees are more likely to remain positive if they understand the reasons for the layoff, and how it will benefit them and the organization as a whole (Appelbaum, et al. 1997). It then becomes the HR department’s responsibility to develop an innovative communication plan to best address survivor questions and concerns (Dirani, et al., 2020). The goal of the communication plan is to persuade the surviving workforce that the layoff decision was necessary, legal, just, and designed to benefit the firm. This information should be factual so that it does not result in negative backlash.

Survivors strongly rely on the human resource personnel and their line managers for reassurance. “HR should implement measures to instill confidence in the company, assure employees of their value to the organization, and communicate to all workers the company’s reason(s) and rationale for the layoff” (Mujtaba, & Senathip, 2020. p. 221). Hence, a part of the communication plan should be designed to reassure employees of their value and notable contributions to the organization. During layoffs, many people gossip about the changes occurring in the organization and the only way to curb this is to effect transparent communication (Hafen, 2004). Several studies have shown that employees require honest and transparent communication about the situation at hand, information about resources available to alleviate the emotional and mental trauma caused by the situation, and a stronger acknowledgement of the difficulty of the current situation (e.g., Dirani et al., 2020; Orangefiery, 2020). Various employees have differing concerns, and it is the HR department’s responsibility to listen, understand, and alleviate each individual's concerns and make each employee feel safe enough to continue to be productive in the workplace (Dirani, et al., 2020). It is important to make employees feel heard, and in turn communicate back to them what they need to hear.

**Staffing**

Albdareen and Khasawneh (2019) describe staffing as one of the most critical duties of the HR department that must be performed with a high level of effectiveness and efficiency. During layoffs, reshuffling surviving employees’ job duties could significantly disrupt the entire existing employment relationship. Thus it becomes important to revisit the staffing function of the HR department. Due to the reduction in staff strength during layoffs, organizations may be tempted to overschedule employees, reallocate responsibilities, or take any other drastic measures to maintain continuous business operations. The HR department is thus responsible for ensuring that effective work redesign strategies are implemented. Anekwe and Nwanah (2021) describe work redesign strategies as actions that include redefining job descriptions, reducing work hours, or merging departments. The work redesign strategies implemented regarding the rescheduling and reallocation of employees should however consider the welfare of
survivors and ensure compliance with labor laws fairly and efficiently.

Albdareen and Khasawneh (2019) further explain that the staffing function should be a process through which organizations can establish an appropriate fit between an employee and his job and align the individual to the culture and values of the organization, thus creating a sense of satisfaction, belonging and commitment on the individual’s part. Thus, to achieve this right fit, the HR department is recommended to conduct a job analysis. The job analysis makes it possible to facilitate workforce planning by matching vacant job content and requirements with surviving employees’ competencies, skills, and knowledge (Morgeson, et al., 2019). Job analysis is also very crucial in determining roles or tasks that are not necessary so that these roles can be merged or eliminated based on the availability of remaining employees.

To commemorate the newly allocated job responsibilities, and in some cases, longer work hours, it becomes necessary to revisit and make adjustments to compensation and benefits if possible (Gómez-Mejia et al., 2016). Most likely, surviving employees will feel entitled to increased benefits or a raise in pay for taking on added work or some other sort of alternative compensation to replace the loss of other fringe benefits they had before the layoffs.

**Training and Development**

After layoffs are completed and surviving employees have been reallocated job responsibilities, it is the HR department’s responsibility to prepare the survivors for their new realities. The HR department is thus responsible for conducting a needs assessment to decipher the organization’s needs, tasks needs, and individual needs in order to develop the appropriate kind of training required (Mahmud et al. 2019). Conducting a training needs assessment will help the department identify skill gaps and improvement areas now available in the workplace. A recent study by Mahmud et al. (2019) showed that training needs assessments play a significant role in improving employees' performance. Therefore the training needs of surviving employees should be thoroughly analyzed, and these employees should be trained or enrolled in developmental programs to equip them with the capabilities necessary to assume or fill up vacant roles.

**Responsibility to Affected Employees**

Once the decision to downsize has been made, the HR department is responsible for reviewing union regulations, collective bargaining agreements, and other local legislation, as necessary, to ascertain all financial obligations due to affected employees (Mujtaba & Senathip, 2020). The organization, and specifically the HR department, has a legal and ethical responsibility to affected employees to pay off unemployment benefits such as accrued vacation and paid time off, and other transition benefits to affected employees (Cavico & Mujtaba, 2013).

Arzuaga et al. (2021) found that affected employees experience a lack of control over their professional lives, uncertainty about their career path in the future, and higher degrees of stress and dissatisfaction. In fact, research shows that laid off employees could be without work for about 26 weeks (Mujtaba & Senathip, 2020). Hence, appropriate measures must be taken to make the transition into unemployment easier for affected employees.

Aside from the severance packages that are offered to affected employees, it is the HR department’s responsibility to introduce outplacement strategies within the organization to help newly displaced employees recover. Outplacement is an HR initiative designed to help dismissed employees cope with the emotional strain of losing their jobs and to offer support for them to find new employment (Gómez-Mejia et al., 2016). While most outplacement activities are usually conducted by third-party consulting firms, the HR department must ensure that effective outplacement strategies exist and affected employees benefit from them. Gyurák et al. (2019) found that affected employees who just lost their earning...
security, a significant part of their living environment, and social interaction opportunities will appreciate the chance to be inspired and assisted in being oriented into this new phase.

Studies, however, show that outplacement programs are underutilized in businesses and that only a small percentage of redundant employees have received any kind of such program (Gyurák et al. 2019). The HR department can implement several outplacement initiatives like (a) providing emotional support through counseling services to help employees deal with the stress of job loss and (b) providing job-search assistance like resume writing or review, skill development in interviewing and salary negotiations, and career planning.

**Conclusion**

Change, although constant and inevitable, is often met with resistance. Downsizing is an organizational change initiative that is difficult to experience. This study sought to examine the increasing layoff and hiring freeze wave in the United States and the role of the HR department in managing the organizational downsizing change process. While downsizing and layoffs may be unavoidable for organizations in the USA for the remainder of 2022, it is the responsibility of all affected organizations’ HR departments to develop effective layoff management strategies for both affected and surviving employees.

The HR department has the responsibility of working closely with line managers and other company executives to help surviving employees remain motivated, regain organizational identity, and understand their new functions and roles as part of the organization’s future. On the other hand, through the implementation of outplacement strategies, the department can mitigate the risks of negative publicity caused by the layoffs, improve affected employees’ transition into the labor market; and demonstrate to affected employees that their contributions to the organization were not unappreciated. It is recommended that the HR department maintain a positive relationship with affected employees and treat them as potential future rehires or referrals. Overall, in this era of impending recession and inflation, HR experts can highlight their value to the organization’s overall strategic direction by managing, leading, and putting layoff policies into practice effectively.

**References**


