10 compelling reasons
why your company shouldn't downsize

By John Di Frances

The media regularly report stories of corporations—both large and small—downsizing their staff. When this occurs, most people instinctively focus their attention on the newly laid-off workers, as they are the ones most acutely experiencing the immediate effects. However, we should also examine the negative effects downsizing has on a company. While it's true that downsizing may provide a decrease in operating expenses in the near term, the long-term impact may not be so positive.

The past several decades have been a time of both economic contractions and expansions. Although at times the outlook has appeared bleak, every decline has been followed by a subsequent period of growth. When 'Black Friday' occurred a few short years ago, many thought the stock market was teetering on the brink of a catastrophic collapse. What followed, however, was one of the longest-lived periods of economic prosperity in memory. The lesson here is that there will be a new economic tomorrow, and in all likelihood it will begin by the middle of this year.

Therefore, it is wise to open the eyes wide and consider the long-term future of your company.
range effects their present cost-cutting actions will have on their organizations. As few as 10 years ago, most layoffs were a temporary solution to increasing costs. Not so today. The new order is that of permanent severance. For many, the proverbial “pink slip” has turned to bright red.

Moreover, the level of employee being severed also has changed dramatically. In previous decades, the cuts were heavily weighted toward blue-collar production personnel. Today, with our heavy reliance on technology to drive the economic engine, the cutbacks in both the manufacturing and service sectors are skewed toward white-collar workers. Additionally, more workers in their 40s, 50s and 60s have borne the brunt of the reductions, as their higher cost compensation and benefit packages are targeted for maximum near-term, bottom-line savings.

Consequently, these changes have set into motion what could become a veritable time bomb for companies that decide to pursue cost reductions through massive staff cuts. The following are the 10 most common consequences that could hinder your company’s future growth.

**Lack of a recallable employee pool.** Historically, layoffs inherently communicated the possibility of being recalled by the employer when economic conditions improved. Many furloughed employees expected to eventually return to their employers have reacted to the layoff accordingly by taking interim and part-time jobs.

Today, many severed employees are not only informed that their release is final, but they are also provided outplacement services funded by their former employers. Thus, the employers themselves are ensuring that these people will, indeed, not remain available to them.

Many of the more senior employees are choosing to become entrepreneurs, thereby, forever removing themselves from the available labor pool. We entered 2001 experiencing labor shortages across most industries, which were particularly acute for high skill and technology workers. At the moment, this scarcity may have temporarily abated, but its root causes remain, and the scenario is certain to revisit us as soon as the economy enters the next upturn.

**Poor morale and lack of trust among younger employees.** Employee loyal-
ty—or the lack of it—is a hot topic these days. Based on younger employees’ attitudes about workplace loyalty, it’s evident that terminating large numbers more senior employees who have faithfully served the corporation for many years has a profound long-term effect on younger, newer employees. Place yourself in their shoes for a moment. Friends, relatives and the media have repeatedly told them that big business is not to be trusted. Now they see their co-workers, supervisors and mentors being fired because “cost cuts need to be made, and these individuals represent higher per capita costs to the organization.” The message is clear, and they understand. The reward for loyalty is to be axed when you are over 50 and unlikely to find another comparable position.

Because of the tightening job market, they may not bolt today, but they will remember. When the economy improves, they will likely seek a future where they feel more secure.

**Loss of knowledge and experience base.** Many companies and even industries are currently developing knowledge bases in order to capture and access organizational information resources. Yet, no matter how effective these databases are, they will never be a substitute for the knowledge, experience and wisdom that rests in the organization’s veterans. Although this is true in terms of deductive knowledge, it is even more important regarding the organization’s continuity and history. People need to feel a sense of belonging to more than just the present. They also need a sense of past and future. Without this, there are no ties, no traditions, no continuity and often no shared ethics and values.

**Loss of corporate culture and available mentors for existing and new employees.** The current corporate culture in many organizations is in a state of dispossesion. While change is usually a good thing, there are some things that simply should not change. Every organization needs to have incontrovertible statements that transcend the fluctuating business climate and current trends. For example, “In this company we do ‘X’ because we believe it to be fundamentally right.”

These values can and should be com-
mitted to pen and paper, but they should not be passed on in this manner. Rather, they should be taught and lived and mentored from one person to the next. The fewer seasoned people the company has to pass these on, the less likely it is they will be able to maintain the soul of the organization.

Loss of established customer service and customer contact points. In any business relationship, there are certain people you like to interact with. You may call a vendor or supplier hoping to speak to good “Good Old Joe,” who you have done business with for years. Image your shock when you hear that Joe is no longer employed there. “Why?” you ask. The response: “We have had a major reduction in staff due to the economy.”

In silence you ponder: “If after all these years Joe is gone, who’s left! Will they even be in business tomorrow? Maybe, I should begin looking around for another supplier.”

While it’s true that no one is irreplaceable, long-term customer and supplier/vendor relationships are invaluable; they also say something about the reliability and stability of your organization. Although the organization’s investment in these relationships does not show as a line item on the asset portion of your balance sheet, do not underestimate their value, especially in a day when the global search for new suppliers and vendors is made instantaneous via the Internet.

Without relationships, price rules, and the only price that matters today is the lowest one.

Employees may be needed again before termination savings are fully realized. If the economy does begin rebounding by the middle of the year, then many of the anticipated savings of reducing the work force will not yet be fully realized before companies will need to begin replacing the terminated workers. The expense of replacement includes both the termination costs as well as the costs of training and integrating the new hires.

Thus, in cases where terminations include substantial severance and outplacement costs, these plus the training and initial inefficiency costs of the new hires frequently equal one to several
years of the terminated workers’ cost to the organization.

Possible need to bring employees back as independent contractors at higher total cost. The shrinking labor pool, together with the fact that a high percentage of the middle-age and older terminated employees are either beginning their own businesses or opting for early retirement, will mean that many of those who remain and are willing to return to former employers will want to do so under their own conditions. A large number of these may choose to do so as independent contractors, preferring to gain a greater degree of control over their own lives. Many companies initially prefer this approach, believing they may only require the services of the former employees for a limited time. Frequently, however, the weeks and months become years, and the independent contractors, who know the inner workings of the organization, remain costing the company significantly more than if they had stayed on the payroll.

Hidden costs that are never fully accounted for. There are very real costs associated with mass layoffs that are almost never fully assessed. Declining morale, disrupted customer relationships, a frequently steep decline in customer service, and the frustration of remaining employees who cannot possibly absorb all of the responsibilities of their departed coworkers result in an attitude of surrender to cutting corners wherever possible.

The loss of future sales. An economy spurred by the tax cut, a weakened dollar propelling export sales, and/or a drop in oil and gas prices could individually or in combination cause demand in many industries to grow rapidly. Where will they find sufficient personnel fast enough to meet that demand? Any failure to respond quickly to the increased demand will result in lost sales and possibly long-term market share erosion.

Diminished market position and status as market leader. The lengths that major corporations will go to and the investment they willingly incur during “good times” to build their image in the public’s mind is amazing. However, as soon as the economy dips, the slashing begins with little thought as to the negative and
immediate impact it can have upon years of careful work and millions of dollars invested to build that image.

When cutting is absolutely necessary, businesses should do so with a scalpel rather than a meat cleaver. Across-the-board percentage staff reductions are the most damaging variety and should be used only in those instances that demand the immediate and drastic cost reductions compelled by the imminence of business failure.

As an alternative to layoffs and terminations, corporate leaders and managers should look to rapidly redeploy corporate assets in order to bolster revenues and profits. In the case of “people assets,” this can often be done through the reassignment of personnel to those areas and functions of the organization offering the greatest potential for rapid internal innovation. Such action frequently results in innovative breakthroughs of enormous and immediate value to the company as people new to a given function approach it with a fresh perspective and a personal knowledge base from which to draw upon.

Although severe cost-cutting can increase the near-term profitability of virtually any company, ultimately the broad-based innovations of its committed and motivated employees is essential to restoring profitable long-term growth. It is that kind of sustainable growth, not temporary savings, that should be the primary goal of every business leader.

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