

Employee layoffs and its impact on employees

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Mass Layoff or [downsizing employees](#) is usually the strategically planned elimination of large numbers of personnel or workforce to enhance organizational effectiveness. Downsizing has some temporary or immediate advantages such as boosting profits, avoiding bankruptcy, creating new relationships, re-organization, and getting rid of “deadwood” or disengaged employees. The [prevailing COVID-19 pandemic](#) has seen many employees getting laid off all over the world.

In survey studies done by the US Bureau of Statistics in 2020, it was shown that over one-third of US workers had anxieties about their companies collapsing, while 22% believed they will ultimately lose their jobs. The Federal Reserve’s Q2 unemployment rate prediction was at 32.1% for the year 2020 (US Bureau of Statistics 2020). According to Indeed data, total January 2021 job postings are down 24% versus the same time last year. The hospitality industry has seen the greatest drop in hiring, down nearly 60% versus this time last year. The trend is almost similar in most countries as no country has been spared the brunt of COVID-19 (ILO, 2020).

A layoff, or cessation of workers employment, is at times a temporary suspension but often a permanent termination of employees from their jobs in the organization (Telford, 2018) Layoffs and downsizing decisions are not necessarily caused by any specific fault of the employees but are [usually a consequence of](#) decreasing sales or customers, cash, and/or material resources within the organization (Travaglione & Cross, 2006). Many times, companies decide to lay off some of their non-essential personnel during economic slowdowns to avoid bankruptcy. Mergers also can cause layoffs, as firms try to have lean operations. A layoff can be a consequence of mismanagement or faulty administration that was not able to keep the company afloat (Petzall, Parker, & Stoeberl). Layoffs can be a consequence of declining industries (such as mining, steel, railway, newspaper, etc.). Cutting costs through [outsourcing](#) has in the past been a factor that caused companies to lay off large numbers of employees. Plain downsizing, another form of organizational restructuring, also causes layoffs. Layoffs are one of the mechanisms companies use as short-term solutions to lower labor costs (Kokemuller, 2017).

The term “layoff” is synonymous with and often associated with concepts such as reduction-in-force (RIF), downsizing, rightsizing, termination, firing, reengineering, and [restructuring](#). Organizational layoffs are designed to improve productivity and overall competitiveness, and they are often perceived as the only way to save companies from bankruptcy (Neto, 2018). When layoffs are announced, it can be a huge disappointment to those who are immediately impacted by it

Employee layoff explained

Layoffs can be one of the most difficult tasks you face as a [supervisor](#). Understanding how the process works will prepare you for any layoffs that your unit must initiate (Neto, 2018). Adequate planning and communication will have a significant effect on the employees being laid off, the remaining staff, and on clients who work with your employees.

Planning and implementation

Process summary

According to the University of Washington (2018) below are basic steps outlining the layoff process for both the employing unit and their HR department.

Employing unit responsibilities:

- Notify Human Resources of the need to administer one or more layoffs (University of Washington, 2018).
- Ensure that employees scheduled for layoff and all other staff and clients receive appropriate and [timely communication about the layoffs](#) (University of Washington, 2018).
- Take any post-layoff action that is necessary to either end appointments or to ensure that reduced positions are accurately reflected in Workday (University of Washington, 2018).

HR department responsibilities (University of Washington, 2018):



- Evaluate the reasons for layoffs to ensure that they are consistent with the employment program or bargaining contract requirements.
- Assist department with planning and managing complex layoffs.
- Determine the rehire list and/or bumping options for classified non-union and contract-covered staff.
- Ensure that the layoff notice is properly prepared and signed by the official who has the delegated authority to do so (typically the CEO or equivalent official, or that individual's designee).
- Ensure that the signed layoff notice is properly delivered to the employee.
- Determine, for classified staff, that the employee's layoff option selection is properly recorded and acted on.

Probationary employees

Probationary classified staff employees do not have the layoff and reemployment rights that permanent classified staff do (Petzell, Parker, & Stoeberl). If a [probationary employee](#) must be let go for reasons related to funding or departmental restructuring, Human Resources prepares a special notice that informs the employee that their position is being eliminated because the department can no longer sustain it (Petzell, Parker, & Stoeberl).

Regularly occurring layoffs

As a heavily grant and contract-funded research institution with many self-sustaining programs, layoffs due to funding reductions or changes in research programs are regularly necessary (Telford, 2018). This happens in NGOs and universities. Such layoffs typically involve small numbers of employees who often know about the possibility of layoff well in advance of the time that the layoff action becomes necessary (Telford, 2018). Examples include situations where:

- A grant, contract, or self-sustaining funding reduction affects three or fewer employees.
- Changed research project goals or the end of a phase of research mean that a position that performs dedicated, specialized tasks is no longer needed.
- A faculty support staff position is no longer needed because the faculty member is leaving the University.

Complex layoffs

According to Telford (2018), complex layoffs are characterized by one or more of the following:

- Involving significant numbers of employees who often hold different job classifications and/or are in different employment programs (e.g., classified staff and professional staff)
- Requiring extensive planning and needs assessment to determine which positions will be eliminated and which employees will be most directly affected because of bargaining unit layoff seniority (Telford, 2018)
- Shifting some work to remaining staff may require the development of new job descriptions and

the evaluation of restructured positions

- Working with Industrial Relations to inform the appropriate unions as to why layoffs are taking place, how affected positions were identified, which alternatives to layoff, if any, were considered, etc. These questions may need to be addressed before the layoff process can be completed (though they cannot be used simply to delay layoff process administration) (Telford, 2018).

Rationale for Layoffs

Layoffs seem to be more and more common as an initial step for avoiding bankruptcy or boosting profits. Therefore, layoffs are an unfortunate reality of the modern workplace locally, nationally, and internationally, though they do have a negative impact. According to Noe, Hollenbeck, Gerhart, and Wright (2018), while people tend to believe that downsizing is something that a company implements in difficult times of recession or when facing bouts or stretches of poor performance, but in fact, “many companies that are doing quite well still downsize for strategic reasons.” Organizations choose the option of layoffs, reduction in force, or downsizing for several reasons: “many organizations are looking to reduce costs, and because labour costs represent a big part of a company’s total costs, this is an attractive place to start” (Noe et al., 2018).

To remain competitive in the market, companies look to cut costs in any area of their business that they can, including its human resources (Noe et al., 2018). Depending upon the quantity and quality of the company’s workforce, reducing labour costs is one of those areas where firms can significantly lower their expenses quickly (Noe et al., 2018). This reduction in force might only give the firm a temporary competitive advantage to avoid bankruptcy as with fewer labour expenses a company can sell its products at a lower price than competitors; thereby allowing it to increase market share (Noe et al., 2018).

As technology continues to develop and provide cost-effective options, global leaders and managers will continue to explore innovations and diverse organizational leadership structures to gain a competitive advantage (Mujtaba, 2019). The introduction of new technologies can reduce the need for a large number of employees (Mujtaba, 2019). As we can see from historical data of the past four decades, technological advancements have negatively affected manufacturing and industrial workers by providing fast automation at a reduced cost for repetitive tasks (Mujtaba, 2019). In most cases, the rationale for deciding to downsize is straightforward: by reducing costs, executives hope to improve firm profitability (Ramlall, Al-Sabaan, & Magbool, 2014).

Impact of employee layoff on survivors

Employees who survive a layoff are called “Survivors”. They exhibit many [negative post-layoff behaviours and feelings](#) like stress, declining morale. However, the strength and shape of these behaviours and feelings depend on some factors which shape survivors’ responses (Mishra and Spreitzer, 1998). Although success or failure of downsizing is highly linked to the degree to which survivors accept and adjust themselves to it, management may ignore the effects that downsizing may have on surviving employees who can lead to declining organizational performance in the long run as

stated by (Kinnie et al, 1998).

Nair (2008) stated that the attitudes and behaviours of survivors are negatively affected by layoffs which create more stress, workload, less morale, commitment, trust in management, violation of psychological contract, depression. He further stated that management can avoid these negative effects by clearly explaining and informing employees of their motivations to downsize (Nair, 2008). If employees believe there were clear honest communications between them and management, they are less likely to exhibit these negative reactions, and they are likely to engage in more speed and effective efforts to rebuild their organization (Nair, 2008).

Types of survivors

Beylerian and Kleiner (2003) stated that survivors respond and exhibit some negative emotions according to the legitimacy of layoffs. Whether laid-off workers were notified before these layoffs, whether the decision was made according to a clear criterion like seniority, the degree of fairness in applied procedures, and whether they were fairly implemented (Beylerian and Kleiner, 2003). So when survivors perceive the inadequate implementation of the above-mentioned items, they will exhibit less morale, commitment, attachment to management (Beylerian and Kleiner, 2003). The same aspects were discussed by Mishra and Spreitzer (1998) who confirmed that survivors react in various ways to downsizing because of various characteristics that differentiated between four types of organizational survivors. These types are constructive, destructive, active, and passive survivors. This classification is based on two dimensions; survivors might react passively or actively, and they can be either destructive or constructive (Mishra and Spreitzer, 1998).

The type of survivor is affected by the appraisal phase he/she is involved in while interpreting the downsizing process (Mishra and Spreitzer, 1998). Survivors engage in two appraisal phases to shape their concept of downsizing. There is the primary appraisal phase, where survivors are affected by the level of their trust in management, its competence, and perceived justice in its implementation procedures. This controls the degree to which downsizing is seen as a threat to survivors (Mishra and Spreitzer, 1998). That is why survivors exhibit cooperative and constructive responses, otherwise, they will respond in destructive ways. While when survivors engage in the secondary appraisal process, they think about their capability in coping with changes incurred by this downsizing (Mishra and Spreitzer, 1998). This is affected by the degree of employee empowerment, sense of self-control, and concept of work redesign; its perceived intrinsic changes. That is why survivors exhibit active responses to downsizing if they are empowered and intrinsically satisfied with new changes introduced, otherwise they will respond in a passive way (Mishra and Spreitzer, 1998).

The psychological consequences of being laid off

Employees (or former employees in this case) can be affected in a couple of different ways. When an employee is laid off, his or her general trust in long-term work may decrease, reducing expectations upon rehire (Aamodt, 2014). Effects of layoffs can trickle into future employment and attitudes. Layoffs in the workplace often leave the former employee less inclined to trust future employers which can lead to behavioural conflicts among co-workers and management (Aamodt, 2014). Despite new employers

not being responsible for prior circumstances, job performance may still be affected by prior layoffs. Many companies work to make layoffs as minimally burdensome to the employee. At times employers may layoff multiple people at once to soften the impact (Aamodt, 2014). Below are some of the psychological stages of being laid off (Aamodt, 2014):

- The denial stage is the first stage in the emotional reaction to change or layoffs, in which an employee denies that an organizational change or layoff will occur (Aamodt, 2014).
- The anger stage is the second stage of the emotional reaction to downsizing, in which an employee becomes angry at the organization (Aamodt, 2014).
- The fear stage is the third emotional stage following an announcement of a layoff, in which employees worry about how they will survive financially (Aamodt, 2014).
- The acceptance stage is the fourth and final stage of the emotional reaction to downsizing, in which employees accept that layoffs will occur and are ready to take steps to secure their future (Aamodt, 2014).

[According to Harvard Business School](#), Companies that shed workers lose the time invested in training them as well as their networks of relationships and knowledge about how to get work done. Even more significant are the blighting effects on survivors.

The Role of HR in Layoffs

When there are layoffs, companies can run into legal issues with some of the employees that were laid off, especially if a large number of them are from any protected minority-status categories based on gender, race, religion, age, etc. (Cavico, Mujtaba, & Muffler, 2016). During layoffs, companies can face potential discrimination lawsuits if the layoffs are not supported by solid data to support the financial or economic benefits clearly and transparently. Lawsuit settlements or defence of legal claims can get expensive and further hurt an organization (Kokemuller, 2016; Cavico & Mujtaba, 2014). It should be noted that the human resources department is morally, legally, and formally tasked with the responsibility of hiring, compensating, training, developing, monitoring, retiring, coaching/counselling, and selecting the right positions and/or employees to be laid off when the organization has to reduce its workforce (Liu, Gong, Zhou, & Huang, 2017).

HR professionals can play a particularly important role in the strategic planning and implementation of employee layoffs. HR professionals are often tasked with the job of weighing the pros and cons of downsizing. According to experts, “the Human Resources Management function must ‘surgically’ reduce the workforce by laying off the workers who are less valuable in their performance” (Noe et al., 2018).

The HR department plays a very prominent leadership and management role when it comes to the layoff process (University of Washington, 2018). HR should be heavily included in the strategic planning, implementation, and overall supervision of this process. HR staff members have the responsibility of the

planning, executing, and managing the layoffs to align with the business needs and to avoid the negative consequences (University of Washington, 2018). Every step of the way, HR should be involved in the pre-planning, initiations, announcement, implementation, supervision, and the after-effects. According to the University of Washington (2018), human resources responsibilities can include the following:

- Evaluate the reasons for layoff to ensure that they are consistent with the employment program or contract requirements.
- Assist all managers with planning and managing complex layoffs.
- Determine the rehire list and/or bumping options for classified staff.
- Ensure that the layoff notice is properly prepared and signed by the official who has the delegated authority to do so (typically the president or equivalent authorized official).
- Ensure that the signed layoff notice is properly delivered to the employees.
- Determine, for classified staff, that the employee's layoff option selection is properly recorded and acted on.

The human resources department is essentially the first to become aware of any major companywide change (University of Washington, 2018). They are the company's integral partners in carrying out plans as major as a layoff. HR should work closely with the leaders of the organization to bring structure and order to the anticipated operation (University of Washington, 2018).

Conclusion

Human resources (HR) professionals and managers must effectively manage the impact of layoffs on people. The immediate financial hardship of a layoff could affect both the physical and psychological well-being of an individual worker, while also causing bankruptcy, depression, and more severe illnesses. Layoffs could result in long-term impacts since unemployment can last up to six months or longer. There might also be experiences of hopelessness when laid-off employees are having difficulty finding new employment. This article has provided an overview of layoffs as well as their impact on employees. Also, the article explained the role of HR personnel throughout layoffs, which are to ensure that the organization can enhance its overall effectiveness. In their role as project managers who are leading the layoff process, human resources professionals must focus on the legal, ethical, and socially responsible implementation of transitioning people and the organizational culture. At a broader scale, layoffs create lower job security overall and increased competitiveness for available and opening positions. Layoffs have generally two major effects on the [economy](#) and [stakeholders](#). The way layoffs affect the economy varies from the industry that is doing the layoffs and the size of the layoff. If an industry that employs a majority of a [region](#) suffers and has to lay employees off, there will be mass unemployment in an economically rich area. This can have leave [ripple effects](#) nationwide. Unemployment is the biggest effect on the economy that can come from layoffs.

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