Chapter 85
Psychological Impacts of Downsizing Trauma

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ABSTRACT

The chapter summarizes research studies as well as case studies from companies worldwide that show how organizational changes followed by downsizing create a traumatic experience for all organization members. The author's focus is on the psychological perspective on traumatic experience by all employees (victims and survivors) and managers whose task is to organize and implement changes in the organization. Based on the literature review, the chapter describes symptoms and psychological effects of organizational change trauma on individuals and the ways to minimize the traumatic effects. The author believes that outplacement and therapeutic approach are effective tools for overcoming the layoff trauma and also send positive signals to employees and to general public.

INTRODUCTION

This chapter is based on a thorough summary and critical analysis of relevant available research and non-research literature with the aim of summarizing the valid findings about the traumatic impacts of downsizing on members of organizations. The author used the traditional literature review of Google Scholar, Business Source Complete and Psych Web databases. The main research task was to find relevant research studies describing the traumatic impacts of downsizing on all organization members. Only studies with relevant research and reliable sources were selected for the chapter. The main goal of the selection process was to bring the reader up-to-date with available and reliable literature on the traumatic effects of organizational restructuring resulting in downsizing. This serves as the basis for practical proposals of procedures to minimize the traumatic effects of downsizing. The proposals are intended to be useful for practitioners such as managers, consultants, psychologists.

Trauma in organization is a consequence of a situation which causes traumatic experiences to individuals within the organization. Before the symptoms of organizational trauma and ways to cure or prevent them are discussed, the reasons that lead to such situations need to be revealed. Traumatic events are quite often results of rational business decisions to optimize business efficiency. One of the frequent strategies is a restructuring the company that is accompanied by downsizing. As the definition states: downsizing is a deliberate organizational design which reduces the manpower and is planned to improve organizational performance. It is an approach that influences the workforce size, operational costs and work processes (Appelbaum, Patton, & Shapiro, 2003). Fisher & White (2000) say that like "rightsizing" and "reengineering", downsizing is a class of management tools for attaining desired change. The decision to downsize a company is among the toughest managerial decisions. It is a legitimate managerial approach to solving critical problems in an organization. Among the main reasons for downsizing are, for example, declining profits, increased pressure from competitors, a merger, the introduction of new technology, the desire to decrease levels of management, and getting rid of unproductive employees.

There are various approaches to this process. Companies follow a structured and planned procedure or they run this process in a haphazard manner, in which layoffs are happening without planning or prior warning. In this case, employees even do not realize what is happening or why. It is obvious that the first-case scenario has much less impact on the members of the organization. However, even in such a process there are negative impacts on the victims – people who are laid off as well as on survivors – people who remain in the company, including employees and managers. Unfortunately, there is no indication that downsizing in organizations, despite its negative effects, is declining.

On the contrary, there are several assumptions that tend to persist in managerial decision making. First, downsizing and decline are natural and even desirable phases of an organization´s development. There is a need to reduce waste and inefficiency that builds up in organizations. Downsizing then leads to efficiency, higher productivity and flexibility as "agility and leanness go together" (Cameron, 1994). Therefore, a common assumption is that organizational downsizing will spur business performance. The usual belief is that organizational restructuring accompanied by downsizing will provide a better alignment with the external competitive environment, improve financial indicators, and ultimately improve stock price performance (Lee & Teo, 2005). Trends like technological advances, environmental emergencies, and global economy are shaping the world. They affect corporate culture and the employees who support the culture. Environmental forces such as technology as well as political/regulatory, economic, and socio-cultural challenges, coupled with bad decision-making, a lack of resources and knowledge, and global competition, are all factors driving change. A good example could be the growth of mergers and acquisitions which result in restructuring frequently accompanied by downsizing. The internationalization of companies is on a growth pattern. This brings the necessity to restructure the companies where one of the necessities of such a process is the change in employee structure and/or downsizing. The number of multinational companies was around 17,000 in 1980; this figure had increased to more than 63,000 in 2000 and had increased further to 70,000 by 2004. At the same time, the number of subsidiaries of multinational companies in 2004 stood at approximately 690,000. Consequently the size and power of Multinational Corporations (MNCs) has grown steadily during recent decades through mergers and acquisitions: between 1990 and 1999 the number of global mergers increased from 9,000 to nearly 25,000. The number of transnational mergers during the same period increased from 2,500 to more than 7,000 in 1999 and over 8,000 in 2000 (Voss et al, 2007). Just in Europe in period from 2002 to 2010, more than 11 000 cases of restructuring were recorded by the European Restructuring Monitor, with the ratio

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