# Retrenchment in Covid-19 world and beyond: Strategic or Knee-Jerk Reaction?

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By Prakriti Dasgupta and Randhir Kumar "Downsizing has negative effect on companies. Early buyouts deplete the number of experienced, talented people, and multiple rounds of layoffs destroy employee commitment. Employees focus on keeping their jobs rather than doing their best." -- Ken Blanchard, Quality Digest While the above statement emphasizes on the potential negative impact of retrenchment or downsizing of employees, it is still a common practice among the firms in the wake of recession or more recently due to the Covid-19 pandemic. Traditionally, there could be a wide array of well-thought objectives behind downsizing, ranging from reduction of costs or operational expenses, increase organisational adaptability, focus on core work, outsourcing, adoption of new technology and neutralizing of political behaviour.

However, with the entire globe reeling under unprecedented Covid-19 induced health emergency, many organisations have had to make difficult decisions related to terminating employment contracts and downsize the workforce. While the Covid-19 pandemic has negatively impacted both the economy and business firms, the larger question here remains is whether the decisions pertaining to retrenchment were thoughtful (strategic) or impulsive (knee-jerk reaction)? At Crossroads: Making the 'Hard Choice' As a pre-empted move, the Labour Ministry of India issued a notification to all employers advising against salary-cuts or lay-offs during the Covid19 pandemic. In spite of such advisory, a study by the Institute of Management Accountants (IMA) noted that 20% of Indian companies had to let go of a significant section of their workforce, with the travel and hospitality industry being hit the hardest, where almost 58% experienced pay-cuts and another 13% were furloughed.

When a firm has to choose between survival through retrenchments vs. perish due to external contingencies, the choice of survival becomes obvious. At the same time, many firms have tried measures to sail through the pandemic with a hope to bounce back when the economy recovers. There are several reported incidences where rather than layoffs, the firms have resorted to alternatives such as voluntary or mandatory wage cut, deferred increment of salaries or bonus, adjustment of working hours, reassignment of work, increased training, freeze on hiring and revamped inventory policy. Firms with relatively deeper pockets and with organisational culture valuing individuals could still try to hold on the employees for business or ethical reasons. Franke Faber India, a leading kitchen appliances manufacturer, chose to cut down on its marketing budget in the short term, instead of succumbing to downsizing and pay-cuts.

Can retrenchment go wrong? – Implications of knee-jerk reaction While retrenchment became a common strategy during the pandemic, a poorly planned and executed retrenchment exercise could have several potential demerits. From the cost perspective, historically only one-third of the firms have seen expected profitability post downsizing. Moreover, it seems that empirical evidence pertaining to a firm's downsizing and performance enhancement is weak. This is truer for the firms, who primarily focus on immediate savings than evaluating the long-term costs or implications of downsizing.

From the human resource management perspective, the possibility of 'adverse selection', where most productive and able employee leave the firm, could spell additional trouble in staffing. There have been instances where post retrenchment, the firms had to gradually recruit people to achieve the workforce strength similar to previous levels. Yet another concern could be related to general decline in employee morale, negative co-rumination and speculations over who is the next one to be axed. At a larger level, the social costs could be related to breach of psychological contract, reputational risks for the firm and potential negative impact on the local labour market and surrounding community. There could be cost implications of retrenchments, where legal cases could be filed against the firm for the disputes related to pension, gratuity, health or voluntary retirement schemes. What if retrenchment is inevitable? Once the business case is evident in favour of retrenchment, the next concern is how best to go ahead with the downsizing manoeuvres. The firms have a choice to engage either in a series or waves of lay-offs or resort to one bold stroke massacre, where the desired number of employees are released at one go. Other than identifying whom to axe and when (i.e., downsize across the board or resort to targeted lay-offs), the tough part of the process is to actually communicate the 'decision' to the respective role holders.

The organisation might wish to have a character like George Clooney in the movie "Up in the Air", where he was hired by companies, only to lay off people and exit the scene. In reality, the experience could be far from transactional and handling the potential internal politics is hardly an easy task. To an external observer the move should look fair and seem to adhere with the distributive and procedural justice principles. While it is uncommon for the firms to find alternate placements for their employees, the hiring department at Swiggy, an online app-based food aggregator, who had to lay-off around 1100 employees during the lockdown, subsequently engaged in finding or recommending suitable job positions to the impacted workers elsewhere in the local economy. Point to ponder – Can retrenchment meet strategic objectives of the firm? Be it pandemic or recession induced retrenchment, the bottom line is that the downsizing tends to be successful when it is coupled with larger fundamental and structural changes in the organisation (e.g., change in organisation structure or business outlook). A thoughtful downsizing would question if the move is an integral part of broader initiatives or whether it is leaning towards a knee-jerk reaction, motivated by the herd behaviour.

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