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Employers Take a Beating by Laying Off Employees

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It's not only employees who suffer when they get laid off but the firms responsible for handing them the pink slips can take a beating, too.

As millions of Americans have been fired by employers struggling to remain profitable, we have all borne witness to Corporate America's calloused disregard of its workers. Now, canny business economists claim the layoffs have hurt employers, too.

That's part of the story of now-defunct Circuit City, an article in the current Newsweek reports, after it lopped off 3,400 of its highest-paid sales associates to cut costs. "A company cuts people. Customer service, innovation, and productivity fall in the face of a smaller and demoralized workforce," Newsweek points out.

"There are currently 14.8 million unemployed, and when you count 'discouraged workers' (who've given up on job seeking) and part-time workers who'd prefer a full-time gig, that's another 9.4 million Americans who are 'under-employed," writes Jeffrey Pfeffer, professor of organizational behavior at Stanford University. By my count, that's 24 million Americans either out of work or not working at full potential. Wow!

"The people who lose jobs also lose incomes, so they spend less. Even workers who don't lose their jobs but are simply fearful of layoffs are likely to cut back on spending too. With less aggregate demand in the economy, sales fall. With smaller sales, companies lay off more people, and the cycle continues," Pfeffer writes in the February 15th Newsweek.

Pfeffer says layoffs simply don't work. Firms lose what's called "institutional memory" as to save bucks short-term they lay off their wisest (and most expensive) heads first, damaging their company long-term. And this can send a chill through any workplace like nothing else.

Employers will tell you their notion of the ideal worker is one who doesn't have to wait to be told, who thinks independently, who acts like an entrepreneur inside the firm. Yet, as layoffs shatter morale, they can also stifle creative thinking. Floating new ideas means taking risks. It means risking failure. And how many employees will risk failure when their bosses are looking to cut payrolls?

Perhaps the most destructive outcome of all from layoffs in this Great Recession is the loss of innovation—the creativity that births new products and generates new jobs. In short, fewer employees and more frightened survivors equals fewer ideas.

"Managers also underestimate the extent to which layoffs reduce morale and increase fear in the workplace," Pfeffer writes. He cites an American Management Assn. survey that found 88 percent of the firms that downsized "said morale had declined." Not only will the surviving top employees want to find a more stable firm when times improve but disillusion among rank-and-file workers can lead to ugly consequences.

The Gallup pollsters find that “active disengagement” — which Gallup defines as working to sabotage the performance of one’s employer—ranges from 16 to 19 percent, Pfeffer writes. “Employers who are unhappy and stressed out are more likely to steal from their employers—an especially large problem for retailers, where employee theft typically exceeds shoplifting losses.”

Employers are also in for a rude awakening if they think slicing payrolls spells profitability. A study of 141 layoff announcements from 1979 to 1997 found negative stock returns to companies announcing layoffs, with larger and permanent layoffs leading to greater negative effects, Pfeffer wrote.

Actually, employers collectively dealt a blow to the economy before this economic collapse began: they held wages down even as productivity shot up. In short, when they enjoyed success, they didn’t cut their workers a bigger slice of the pie. And when conditions worsened, employees got a pink slip and no pie period. This really gave a knock to consumer spending.

One counter-weight to mass layoffs would be a reinvigorated labor movement. But this is unlikely as employers can fire employees who try to organize their co-workers for higher wages, health benefits, and job security. The long, sad slide in union membership has crippled worker purchasing power and retarded economic growth—one more reason the Employee Free Choice Act needs to be brought to a vote to give employees a chance to organize to improve their lot.

As one might conclude from scanning AFL-CIO’s home page, millions of workers today are treated little better than dogs. In the restaurant industry, for instance, 90 percent of its 13 million staffers “are not offered health insurance or sick days,” a substantial number are forced to work “off the clock” and the median wage for food preparation and service workers is only $8.59, including tips.

When your largest industry pays people that way it’s hard to feel sorry for employers like Circuit City and others that had to close their doors after they axed their best talent.

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