

# Rightsizing vs. Downsizing in Canada: 6 Hidden Organizational Design Risks HR Managers Must Understand



In today's evolving economic and business landscape, Canadian HR managers are often tasked with guiding their organizations through difficult decisions about workforce size and structure. Whether triggered by declining revenues, shifting markets, or the need for operational efficiency, two strategies frequently emerge: rightsizing and downsizing.

Though they may seem interchangeable, these strategies have very different goals and consequences. Rightsizing focuses on aligning people, roles, and processes to strategic objectives, while downsizing is often a reactive measure to cut costs by reducing headcount. Both carry risks, but rightsizing in particular requires thoughtful planning to avoid unintended damage to the organization's design and long-term viability.

## **So, what are the six most common organizational design risks that Canadian HR professionals must navigate when managing rightsizing efforts?**

Each of the following risks can severely undermine the benefits of the process if not identified and addressed early.

### **1. The Disruption of Core Capabilities**

One of the biggest risks in a rightsizing initiative is accidentally stripping the organization of the very capabilities that give it a competitive edge. Unlike downsizing, which often takes a blunt-instrument approach to layoffs, rightsizing requires precision. Yet when job eliminations or role changes are made without fully understanding how knowledge, expertise, and functional collaboration are distributed, **critical skills can be lost.**

Take the example of a mid-sized financial services firm in Toronto that underwent a rightsizing process to become more agile in digital service delivery. While they eliminated several roles in traditional customer support, they overlooked the fact

that those staff held deep institutional knowledge about regulatory compliance and customer history. Within months, the company began facing errors in service delivery, compliance violations, and a spike in customer complaints. The organization had unintentionally dismantled its knowledge backbone.

To avoid this risk, HR managers must map organizational capabilities to roles, not just titles, and involve operational leaders who understand how work gets done. Losing a person may seem minor on paper but could have significant ripple effects across compliance, safety, or innovation.

## **2. Misalignment with Strategic Direction**

Rightsizing is often framed as a way to achieve better strategic alignment. But if the underlying strategy isn't clearly articulated or is misunderstood by leadership, the redesign can create more confusion than clarity. Misaligned rightsizing leads to role redundancies, conflicting accountabilities, or weakened performance in key areas.

Consider a Vancouver-based health tech startup that attempted to restructure its product and engineering teams based on a shift to SaaS delivery. Leadership believed the company needed fewer back-end developers and more customer success roles. However, they failed to recognize the complexity of their existing infrastructure, which still relied heavily on those developers. The resulting gaps stalled the company's product updates, caused missed deadlines, and led to customer churn.

Strategic clarity is critical. Before adjusting headcount or job roles, HR leaders need to ensure the organizational design reflects a shared and well-communicated strategy. Otherwise, rightsizing may end up fragmenting teams and derailing forward progress.

## **3. Leadership Gaps and Decision Bottlenecks**

One of the overlooked risks in rightsizing is the erosion of leadership capacity. While downsizing often targets rank-and-file positions, rightsizing may impact management layers, especially in efforts to flatten hierarchies or redistribute decision-making authority. This can lead to unexpected bottlenecks in approvals, weakened accountability, and confusion about who is driving key initiatives.

A large Crown corporation based in Ottawa underwent rightsizing to create a more horizontal leadership model. The intention was to empower teams and reduce bureaucracy. But by eliminating several middle-management roles without clearly redefining responsibilities, they left front-line teams without adequate guidance. Projects stalled as junior staff waited for direction or approvals that never came. The company ultimately had to reintroduce several managerial positions to restore flow and accountability.

HR professionals must balance the desire for leaner leadership with the need for functional oversight. Identifying which leaders are essential to cross-functional execution, mentorship, and change management is critical to sustaining momentum post-rightsizing.

## **Culture and Morale Erosion**

Unlike downsizing, which is often viewed as a temporary or crisis-driven necessity, rightsizing can be positioned as a positive step toward renewal. However, this perception doesn't automatically translate into employee buy-in. If rightsizing is not managed transparently and sensitively, it can erode trust, spark fear, and damage organizational culture.

In a Montreal-based manufacturing company, rightsizing was undertaken to modernize operations and automate repetitive tasks. Although the company avoided mass layoffs, the remaining employees felt disconnected and anxious about their job security and future roles. Productivity dipped as engagement dropped, and some of the company's top engineers resigned for more stable environments.

Rightsizing isn't just about numbers—it's about people. HR must build and maintain trust through clear communication, transparent decision-making, and inclusive change management. Cultural stewardship is just as vital as operational restructuring.

### **5. Inadequate Role Redesign and Overwork**

When roles are consolidated or repurposed during rightsizing, there's a risk of overburdening employees with unclear or unmanageable responsibilities. This can lead to burnout, quality issues, and turnover, all of which negate the intended efficiency gains.

One example comes from a Calgary logistics company that restructured its dispatch and warehouse coordination teams into a new hybrid role. While this eliminated duplicative tasks on paper, in practice the new role required a broader skill set and longer hours. Turnover increased by 30% within six months, and operational errors doubled.

Proper role design should account not only for tasks and deliverables but also for workload balance, required skills, and performance support. HR should validate job changes through employee feedback and pilot testing before implementing them company-wide.

### **6. Loss of Organizational Memory and Relationship Capital**

Both rightsizing and downsizing carry the risk of losing long-serving employees who hold essential institutional knowledge and stakeholder relationships. But in rightsizing, this risk is compounded when knowledge transfer is not formally managed.

An Edmonton energy consultancy firm reorganized to focus on renewable services, letting go of several legacy project managers who had built decades of client relationships. While newer staff brought in fresh perspectives, the firm lost business within months as clients felt disconnected and undervalued.

Rightsizing should include strategies for knowledge retention and transition planning. HR can support this by developing mentorship programs, documentation protocols, and succession pipelines that preserve critical insights even when roles change.

# **The Role of AI in Rightsizing and Downsizing Decisions**

Artificial intelligence is rapidly reshaping the way organizations approach both rightsizing and downsizing. AI-driven workforce analytics tools can provide unprecedented insights into productivity, skill gaps, role overlaps, and performance trends. This data can help HR professionals make more informed, evidence-based decisions about which roles to redesign, eliminate, or evolve.

However, AI can also introduce new risks. Algorithms may carry hidden biases that amplify rather than reduce inequities. For example, a major Canadian telecom used AI to optimize its field service workforce, only to find that the algorithm disproportionately flagged older workers for redundancy based on outdated assumptions about productivity. After public outcry and legal scrutiny, the company paused the initiative to reassess its methodology.

Moreover, overreliance on AI can lead to dehumanized decisions. Rightsizing is as much about human potential as it is about metrics. While AI can support forecasting and modeling, it should never replace leadership judgment, ethical consideration, or the need for open communication with employees.

As AI becomes a fixture in organizational design, HR managers must understand both its capabilities and its limitations. Combining human-centered values with data intelligence offers the best path forward.

## **Why Rightsizing Demands HR Foresight**

Rightsizing is often touted as the smarter alternative to downsizing, promising strategic alignment and greater efficiency. But without careful attention to organizational design, it can carry just as many, if not more, risks. From leadership gaps and morale issues to role overload and cultural fallout, HR managers must be proactive stewards of the entire process.

This means going beyond cost calculations to ask harder questions: How will this impact our capabilities? Are we ready to manage the cultural shift? Do we truly understand how work gets done today—and how it needs to evolve tomorrow?

By recognizing these six common risks and planning for them, Canadian HR leaders can guide their organizations through rightsizing efforts that are not only compliant and strategic but also humane, sustainable, and future-ready.