What’s Behind the Tech Layoffs?

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INSEAD faculty on the state of the labour market and what’s to come for firms and employees.

From tech to finance to media, the recent spate of layoffs has affected some of the world’s most high-profile companies – many of which were on a **hiring spree** as recently as 2021 and experienced outsized growth during the pandemic.

Google, Meta, Yahoo and Microsoft have all recently retrenched a significant percentage of their workforce. The layoffs extended well beyond Silicon Valley, with banking behemoth Goldman Sachs conducting its **largest layoffs** since the 2008 financial crisis and Morgan Stanley and Credit Suisse also trimming headcount. And while the media industry is no stranger to redundancies, major names including Disney, NBC and CNN have also slashed a substantial share of their staff.

Does the downsizing spell doom and gloom for the labour market? Will the layoffs spread to other sectors amid concerns of an impending global recession? How should employees position themselves to take advantage of ongoing opportunities? Here’s what we think.

Tech was unique going into Covid-19, but not coming out of it

Chengyi Lin, Affiliate Professor of Strategy

The tech sector saw a significant uptick in growth during Covid-19. Firms responded by ramping up hiring, while workers flocked to the industry for its attractive compensation and benefits and flexible working arrangements. This optimism continued as the pandemic eased and the world began reopening.

Fast forward to today and we are facing inflation and the threat of a global recession. Much of what we are seeing with these layoffs is tech companies readjusting their growth projections. Indeed, one could say that tech was unique going into Covid-19, but not coming out of it. Firms that have experienced tremendous growth have moved into a different stage of their maturity. The challenge of running a sustainable business model finally caught up with them and they realised their fundamental value-capture model was not working out.

What happens in the next few months will largely depend on the macro environment and investor sentiment – how well inflation is controlled, how deep the recession may turn out to be and how much investors continue to require returns during this period. In addition, **geopolitical tensions** will continue to interfere with the global economy. We’re in a transition phase in many ways and while no one can predict what will happen, we can all get ready for what is to come.

First, companies and investors need to have more thoughtful and realistic expectations surrounding growth. Perhaps now is the time for firms to enter a transition phase that prioritises innovation, experimentation and exploration to build out a slightly different future, rather than emphasising profitability above all else. Workers can think about upskilling and reskilling, while companies should be technologically prepared, adopt a more agile mindset and find a balance between costs and resilience.

Second, digitalisation will continue to penetrate industrial sectors beyond tech and consumer goods. Although we might not see an uptick in overall hiring, employment figures could continue to increase, and certain industries will show outsized growth. I’m optimistic about digital transformation and innovation in the industrialisation sector, especially in terms of new energy and **sustainability**. As demand for digital talent such as programming and data analytics continues to grow in these fields, workers should look beyond Big Tech to such areas where they can make a big impact.

Third, companies must pay more attention to their various stakeholders and the holistic needs of their employees – including health, family and well-being. The labour market is always in a state of negotiation, and the present climate presents an opportunity for employers and employees to engage in meaningful dialogue. Right now, there's more debate than dialogue, which isn't helpful for anyone.

A combative view that paints one side as the aggressors and another as the victims is less helpful for overall progress. We know that the reality is far more complex. Rather, both firms and employees should come to the table with empathy and understanding and work together to find constructive, mutually beneficial solutions.

What we are seeing so far is a small adjustment in the sector

Antonio Fatás, Professor of Economics and the Portuguese Council Chaired Professor of European Studies

There is no doubt that we are seeing a reset of expectations in many tech-oriented companies. The large growth and hiring spree of the last few years is being partially reversed. While the layoffs are simply shrinking those companies to their pre-pandemic sizes, the signal is that the years of growth might be behind us or, at a minimum, we are witnessing a pause. This is in contrast with the mood over the last years when fast growth seemed to be a given.

How much does this matter at the aggregate level? Ultimately, the labour market remains very strong, so we do not yet see any signals of a significant weakening in advanced economies. Even if you look at regions where these tech layoffs are happening, such as Silicon Valley, the **unemployment rate** is still very low. Of course, the scenario for the coming months **might not be so rosy**. These economies are slowing down and it is possible that this translates into a weaker market at the aggregate level.

It is a misconception that layoffs necessarily damage psychological safety

Henrik Bresman, Associate Professor of Organisational Behaviour

The power structures of the labour market have always been dynamic. Recently, power seems to have shifted towards the employer. In the headlines, we see less about “quiet quitting” and more about “the boss is back”, supported by colourful anecdotes from Twitter and other high-profile firms, particularly in the tech industry. However, the current situation is far more nuanced when you take a closer look. For example, the unemployment rate in the United States has fallen to its **lowest level since 1969**. It is hard to see how this does not come with increased bargaining power for employees in large swathes of the economy.

Layoffs are painful, especially for those affected. There is no way around it. However, it is a misconception that layoffs necessarily damage psychological safety. This conflates two very different concepts: psychological safety and job security. Psychological safety does not mean having a guaranteed job for life. I would argue that layoffs can be an opportunity for companies to **strengthen psychological safety**. If the process is handled with transparency and predictability based on a clear rationale, it can increase a sense of trust among the remaining workers.

There is plenty of evidence that **mental health and performance go hand in hand**, particularly in fast-moving settings that require collaboration and new solutions. Investing in the well-being of their workers is the right thing for companies to do, and one would hope that employers are incentivised by the higher performance that can come with this to continue this practice going forward – regardless of which side (employers or employees) seemingly has the upper hand in the current labour market.

Power may not be as firmly in the hands of employers as some might think

Mark Mortensen, Associate Professor of Organisational Behaviour

The prevailing wisdom is that given corporate belt-tightening and layoffs, the days of “give me what I want, or I go somewhere else” are no more. However, I would caution employers about getting overly cavalier about their ability to do whatever they want; power may not be as firmly in the hands of employers as some might think.

Obviously if the number of available jobs to choose from drops and the population looking for those jobs remains the same (or grows), the power shifts towards employers. It is also key to remember that in the past few years we have seen many people rethinking what they want out of their careers, and in some cases moving to a different part of the labour market with a career change or taking themselves out of it entirely. Put another way, the basic law of power – asymmetric control over a valued resource – remains unchanged in that whichever resource (be it available jobs or available talent) is rarer provides power. However, employees have increasingly been changing the parameters of that equation.

For firms, investments in employee well-being are about sustainability and the long-term value that comes from it. Taking advantage of the present situation and treating employees poorly will lead to demotivation, reduced engagement and therefore lower productivity and performance. It recalls the age-old truth: It is expensive to have a disengaged employee leave, but it may be even more costly to have them stay.

This also ties to recent work that **Amy C. Edmondson** from Harvard Business School and I have been doing on the need for an **integrated employee value proposition**. When employers fail to forge holistic long-term relationships with employees, they promote a transactional relationship . If the employee experience is poor and the only reason employees stick around is fear of losing their jobs in a tight economy, they are likely to jump ship as soon as the market improves.

Given the **current environment**, will we still see employees voluntarily switching jobs? It really depends on their motivations. Job switching feels scary and risky. It comes with questions like: What if the grass actually turns out to be browner? What if I'm not as successful in a new environment? The increasing number of risks obviously leads people to be more conservative.

However, we saw during Covid-19 that many people took leaps of faith in the face of tough times – changing careers or jobs to align with new priorities. Many of those reprioritisations remain in place, and we may see people continuing to use a tough situation to catalyse one of those leaps.

Losing a job doesn't mean losing ourselves

Winnie Jiang, Assistant Professor of Organisational Behaviour

Clear and open communication on why layoffs must be conducted and the criteria that such decisions are based on is important, and the information needs to be made available to both layoff victims and layoff survivors. If done well, this can help firms maintain a constructive relationship with those who were retrenched, which will benefit their recruitment in the future. It will also help ensure a sense of security and trust among remaining employees.

While this is a difficult time for those who were made redundant, it can be an opportunity for new learning, discovery and growth. Employees who have long been contemplating a job change or career transition could take advantage of this chance to finally make the move. Employees who liked their job can reflect on what they value most from their work and life, what skillsets they should preserve and highlight, and what needs to be upgraded. A deeper self-examination and more clarity on these questions could help employees build stronger career resiliency that would lead them to a **more fulfilling work life** in the future.

Being let go can feel very personal and generate feelings including anger and resentment. Although easier said than done, it is crucial not to fixate on these negative emotions, but rather turn them into engines for deeper self-reflection.

Losing a job doesn't mean losing ourselves. In fact, for many people it can become an invaluable chance to regain their sense of self by investing time to develop a deeper understanding of who they are and what they value. The same opportunity is there for layoff survivors. While it is normal and understandable to worry about job security, gaining better clarity on our personal values, purpose, aspirations, strengths and weaknesses will help us develop a sense of internal security that will become our source of power as we navigate the ups and downs in our career and life journey.

Find article at

https://knowledge.insead.edu/career/whats-behind-tech-layoffs

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