California Management Review

MANAGEMENT

Are Tech Layoffs a Major Disruption or a Just Minor Course Correction from Past Excesses?

by Anup Srivastava, Vijay Govindarajan, Shivaram Rajgopal, and Jonathan Tanone

Image Credit | Alex Kotliarskyi

Is excessive hiring to blame for mass layoffs plaguing the tech world?

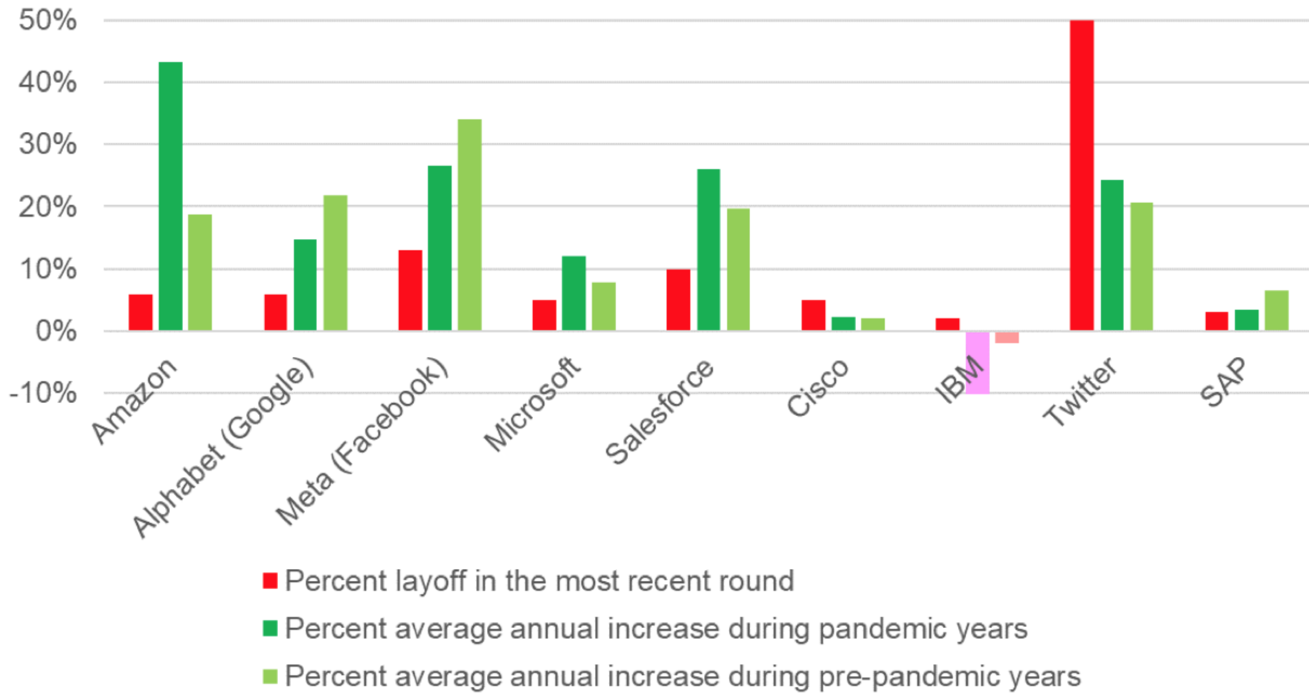
INSIGHT | FRONTIER 14 Mar 2023

Tech layoffs made recent headlines. Earlier this year, layoffs included Amazon (18,000), Facebook (13,000), Google (12,000), Facebook (11,000), Microsoft (10,000), Salesforce (8000), Cisco (4,100), IBM (3,900), Twitter (3,700), and SAP (3,000). By some counts, about **200,000** people lost jobs in the last twelve months. These layoffs have been particularly hard on immigrants on H1B visas, who constitute a majority of layoffs, **and must find a new job within 60 days or fear** losing their legal status in the United States. In this article, we present a counter point of view. We provide data-based evidence that the recent layoff is a just minor correction to the overjealous and excessive hiring done during the pandemic. Furthermore, layoffs are strongly related to reversal in fortunes of the tech companies, as reflected in the drop in their share prices from pandemic peaks. The implication is that these recent layoffs do not indicate a wholesale disruption in tech hiring, and a blow to immigrants' participation in tech sector. The picture is not as dire or pessimistic as is being made out. On a net basis, the tech hiring over the past years was positive by a wide margin, and tech hiring pace would likely resume when the tech valuations recover.

RELATED CMR ARTICLES

"Managing in the Talent Economy: The Football Model for Business" by Chris Brady, David Bolchover, & Brian Sturgess. (Vol 50/4) 2008.

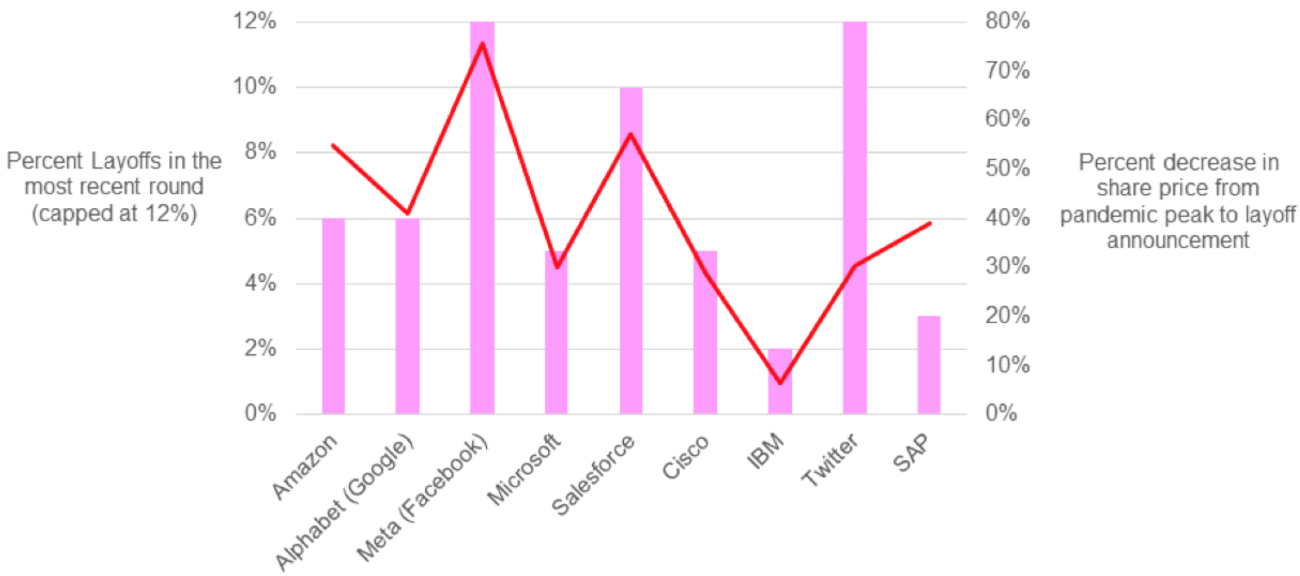
We began by calculating the annual percentage increase in a company's employee count during the two years of pandemic (2020 and 2021) and two years before the pandemic (2018 and 2019). We compare the annual averages of those increases to the percentage layoffs in the recent rounds. We present data in Figure 1. The layoffs are significantly smaller than the annual increases in the previous two periods. For example, Amazon announced a layoff of 6%, compared to a pandemic increase of 43% per year, and annual pre-pandemic increase of 19% per year. Similar numbers for other companies are Google (6%, compared to 15% and 22%), Facebook (13%, compared to 76% and 27%), Microsoft 5%, compared to 12% and 8%), and Salesforce (10%, compared to 26% and 20%). It is noteworthy that the large hirings during pandemic years never made headlines, but the recent layoffs are attracting huge attention. Accumulated over last five years or so, tech firms remain net hirers by a wide margin.



Other tech firms present a slightly different picture. For example, Cisco reduced its manpower by 5%, compared to 2% and 2% increases in the two periods, IBM continued its trend of reducing its manpower in all three periods, and Twitter that took a massive restructuring (50%) after Elon Musk takeover.

We study the companies' announcements accompanying the layoffs to confirm our idea that the current layoffs are merely a correction from excessive hiring during the pandemic year. **Google CEO** Sundar Pichai said: "Over the past two years we've seen periods of dramatic growth. To match and fuel that growth, we hired for a different economic reality than the one we face today." Mark Zuckerberg, **Facebook's CEO** said, "At the start of Covid, the world rapidly moved online and the surge of e-commerce led to outsized revenue growth. Many people predicted this would be a permanent acceleration that would continue even after the pandemic ended. I did too, so I made the decision to significantly increase our investments." **Salesforce CEO** Marc Benioff said, "As our revenue accelerated through the pandemic, we hired too many people leading into this economic downturn we’re now facing, and I take responsibility for that.” Satya Nadella, **Microsoft CEO**, said: “We’re living through times of significant change, and as I meet with customers and partners, a few things are clear. First, as we saw customers accelerate their digital spend during the pandemic, we’re now seeing them optimize their digital spend to do more with less.” Andy Jassy, **Amazon CEO** said, “we’ve hired rapidly over the last several years.” He said about the future “These changes will help us pursue our long-term opportunities with a stronger cost structure; however, I’m also optimistic that we’ll be inventive, resourceful, and scrappy in this time when we’re not hiring expansively and eliminating some roles.” Furthermore, the layoffs seem to be for operational efficiency, not any wholesale changes in the direction of the companies.

We also examine whether the layoff percentage is related to decline in tech valuations. This relationship would support the idea that CEOs must demonstrate cost savings to their investor community, to retain investor support. Note that unlike traditional companies, which cannot easily reverse their excessive investments made in property, plant, and machines during boom years, a tech company can easily reduces its costs by reducing its manpower. As expected, we find a remarkable correlation, as shown in figure 2. We measure percentage decline in share price from the peak during the pandemic period to the end of the month before the layoff announcement. Excluding Twitter and SAP from the analysis, we find a remarkable 93% correlation. This analysis also gives hints for the future, that a reversal in layoff, that is, an increase in tech hiring, will not occur unless tech valuations recover. Nasdaq, the tech heavy index fell by about 35% from 16057 on Nov 19, 2021, to 10,466 on Dec 31, 2022. This decline was followed by numerous layoff announcement in January 2023. Thus, when tech valuations recover, tech hiring might revert to its previous path.



To sum it all, contrary to the recent headlines, there is no major disruption in tech hiring. It is a minor correction from excessive hiring done during the pandemic years. As **New York Times** describes: "It is an abrupt turn for an industry that became famous for its big salaries, extravagant offices and lavish perks, from free shuttle buses to free laundry services for employees." Even that correction, if any, is related to decline in tech valuations, and may reverse when tech valuations recover.

Anup Srivastava Follow

Anup Srivastava holds Canada Research Chair in Accounting, Decision Making, and Capital Markets and is an associate professor at Haskayne School of Business, University of Calgary. In a series of Harvard Business Review articles and California Management Review posts, he examines the management implications of digital disruption. He specializes in the valuation and financial reporting of digital and knowledge-intensive companies.

Vijay Govindarajan Follow

Vijay Govindarajan is the Coxe Distinguished Professor at Dartmouth's Tuck School of Business and Faculty Partner at the Silicon Valley incubator Mach 49. He is the author of The Three Box Solution. Govindarajan is one of the world's leading experts on strategy and innovation and a two-time winner of the prestigious McKinsey Award for the best article published in the Harvard Business Review.

Shivaram Rajgopal Follow

Shivaram Rajgopal is the Kester and Byrnes Professor of Accounting at Columbia Business School. He is a leading expert on measuring how well managers serve as responsible stewards of the corporation's resources. Shiva's extensive body of work covers a wide range of contemporary issues in financial reporting, fiscal responsibility and corporate governance.

Jonathan Tanone Follow

Jonathan Tanone is a PhD student at Haskayne School of Business, University of Calgary. He studies business combinations, intangibles, and knowledge transfers in new economy firms. He is an accounting professional with diverse auditing and advisory experience.