



Leadership Edge

The Reality Behind Layoffs, Why the Upsurge?

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As the global economy continues to evolve, we are witnessing stiff competition and an increasing dependence on technology that have resulted in deep and long-lasting effects on the job market. In response to this volatility, companies often resort to restructuring human resources policies, pay cuts, and even layoffs. In the long term, however, these moves have a detrimental impact on both the employers and employees. How should, then, companies navigate their workforce management strategies? Sandeep Chaudhary, CEO of PeopleStrong Technologies, throws light on the matter.

Layoff season has been sweeping several sectors across the globe. We are seeing multiple large and well-reputed organisations, both from the tech and non-tech worlds announcing massive layoffs. Driven by economic headwinds and the aftermath of the pandemic, are businesses gearing up for a recession in the coming days? While these sudden layoffs have had a huge impact on livelihoods, there is a question that lingers among the masses. Why are layoffs happening in the first place? Let us delve deeper into it. All the big brands proclaiming layoffs have garnered spotlight across social media channels and newspapers amidst mounting anxiety. However, 12 months down the line, these same firms may be seen scouting the marketplace again, hiring individuals from educational institutions and off-campus hiring drives. And yet again, despite the disappointment and uncertainty caused by these terminations, most potential candidates will be ready to work with these organisations who instituted layoffs in the not-so-distant past. This shows us how reputation capital cost is momentary and how employees are forgiving towards employers even under dire circumstances. Let us try and understand this better.

All of us, employers and employees alike, we love to thrive in a capitalist world and the essential feature of capitalism is to make profit; be it short term or long term. The free market controls everything. And like commodities and services, jobs are also governed by the laws of demand and supply where external environment affects the number of job vacancies and salary scales. We must understand that the shifts in pay scale and job openings have also taken place because of everything happening in the world, ranging from geopolitical uncertainties to fatal epidemics. In our case, the events took place in a rather fast timeline. The course of things in the last 36 months has been such that we have witnessed it all – be it lockdowns, fluctuations in demand and supply, stock market crashes, a looming war, and now, even a deadly recession that seems to be underway. Consequently, with this came an unprecedented increase in hiring initiatives, an exponential increase in standard salaries, and the ‘great resignation’. All of this might seem like it has occurred over 30 years, but no, this is just 36 months. This is the level of volatility prevailing in our world at the moment, but the catch is, our capitalist mindset remains the same.

This brings us back to the point that the nature of individuals who partake in our capitalist world is only one – maximising profits. Therefore, the employer and

employee will only do things that will increase their profit at any point in time. This is the reason why potential candidates, if given a chance, would accept job offers from companies who conducted layoffs not very long ago. This is simply because, no matter what the longevity of the gain is, individuals are always inclined towards reaching for it; they would choose to ride that tide and maximise their profits. Implicitly, this comes with a price. Both the employer and the employee pay an equally heavy price for this hasty decision when there is a downturn – in our case, an upcoming recession.

Who Bears the Burden?

It is important to acknowledge that a layoff is a painful activity for both parties involved, i.e., the employee as well as the employer. For the employee, we know that it has a multifold effect starting from suffering a pay loss—a direct effect on their livelihoods and standard of living—to a dip in confidence, where they are unsure of their skills and work performance. From the employer standpoint, the reason is monetary as well as emotional.



Executing layoffs might not help reduce costs overnight.



The philosophy behind layoffs, from the perspective of the firm, is fundamentally to rationalise costs when growth is hard to come by.

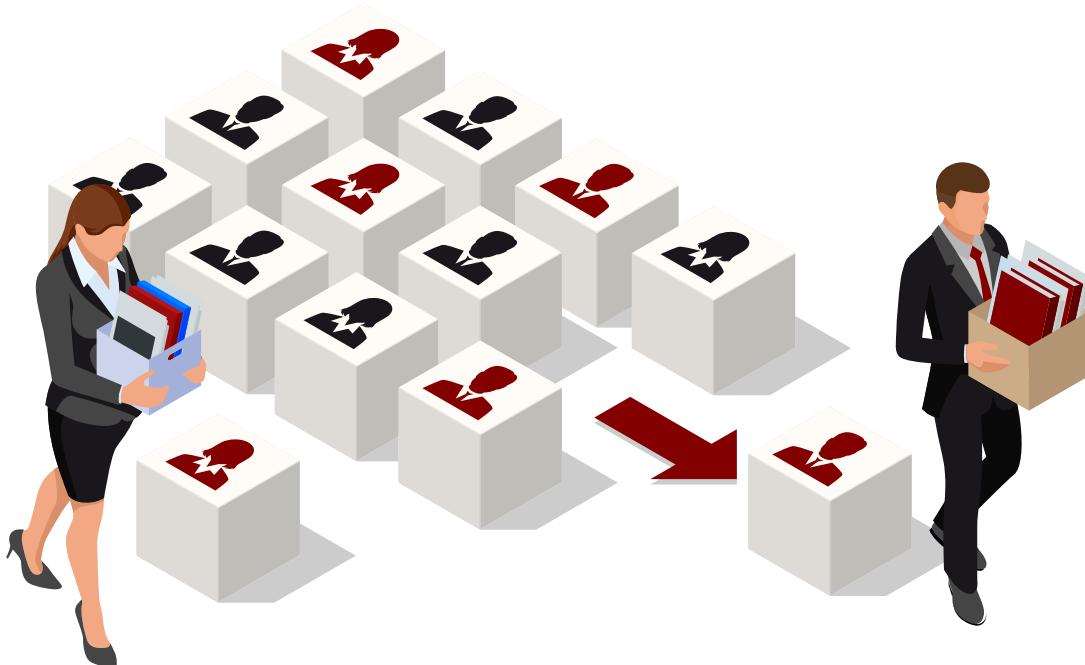
That means, the moment consumption drops and demand declines, you have to focus on cost to regain your composure in the market and the fact remains that the ‘people’ cost in businesses is the single largest transactional element of all other costs—among other costs that an organisation has to incur—that can be easily reviewed. This review is more widespread in countries where the employment

laws are not overly protective or biased towards a worker. Therefore, in contrast to European nations, in countries like the United States, India, etc., it is relatively easier to do away with white-collar positions. This is the prime reason why big companies do not establish their manufacturing bases or large employee bases in places where they would not be able to let go of the workers, should there be a global decline in demand. Rather, they prefer to be in control than being regulated and restricted by local authorities.

In terms of bearing the cost, organisations have to put up a strong face and deal with the low morale that would prevail after the layoff. Members of the staff who were retained would have lost their colleagues, their friends—essentially a good part of their social circle—who were laid off for no apparent fault of theirs. A decline in the existing employee's morale, commitment, productivity, and engagement is a cost that employers should thus foresee, prior to their move to layoff.

Do Employers Need to Prepare for a Layoff?

Being visionary is a trait that large corporations must learn to imbibe in practice. Before hiring, it is critical for them to assess the vitality and importance of the skill they are looking to hire an individual for. Layoffs, in many ways, are a reflection of the mistakes that large organisations have committed under the garb of growth, when they were riding the growth tide. A lot of decisions are made in haste, like over-hiring and over-compensating. But due to the lack of a long-term vision,



these firms are forced to downsize when facing an economic or geopolitical crisis. Therefore, instead of throwing more people at the problem, organisations must turn to smarter solutions – perhaps automation or simply outsourcing the task. Ideally, it is the responsibility of firms to hire responsibly and compensate responsibly. However, we must empathise with them too because, as we mentioned before, firms are governed and run by market forces. So, if their competitors are offering inflated salaries and hiring aggressively, they ought to keep up. Otherwise, it would be onerous to retain and hire talent within their firm at a lesser compensation.

Having said that, organisations who believe in the concept of total or relational rewards, and not merely transactional rewards, are able to insulate themselves better from market movements and volatility. Consider an example where there is a hiring drive conducted in a well-reputed college. Now, the agenda of the firms coming to hire from these institutes is what decides the nature of rewards and the vision they would offer to their employees upon joining. Are you, as a firm, hiring from good colleges because of the excellent talent pool who would help you in your purpose? Or are you hiring from good colleges because you do not have the time to invest in people? The fact of the matter is that 10% of the best resources will always command a premium price. However, if organisations choose to hire for purpose and not for profit, they would be able to do so at a much more reasonable price, although it would require them to invest more in training this workforce, thereby building a strong culture, purpose, and vision.

How can Employees Deal with Layoffs?

In today's world, the question isn't about 'if' you get laid off; it is 'when' you get laid off. The pattern has been such that, earlier, we used to hear about layoffs perhaps once in 10 years, then once in five years, and now it has come down to two to three years. Visibly, the volatility isn't reducing. Therefore, it is absolutely imperative for employees to focus on constant renewing of their skillsets.





One cannot go on with a mindset that their learning and development, more specifically, skill development, is their employer's prerogative. Today, that prerogative and accountability lies with the employee.

It is the employee who should be investing in upskilling themselves if the company isn't.

Fundamentally, this act of constant reinvention is what would help employees to prepare for an eventuality of a layoff. Individuals who tend to be risk-averse, continue doing the same job for years without learning anything new, but in reality, being risk-averse would actually put you in a much riskier position. So, disruption is a great opportunity to reinvent and rebrand oneself. At the same time, it is advisable to be careful in riding the growth wave and sitting on an incredibly inflated compensation as it may not be easy for the firm to sustain it in the long run. As we see these economic cycles of uncertainty become narrower, it is very likely that this phenomenon too will be corrected. We have witnessed these corrections plenty of times over the past 36 months. The first symptom would be layoffs, second would be pay cuts, third would be lack of jobs in the market, recession, and so on and so forth.

Therefore, individuals must take charge, be bold, and put themselves out in the open to face newer challenges.

The Way Forward

One of the most important things that we must keep in mind is that we have to stay fit and agile enough to ardently deal with the turbulent times ahead of us; and this holds true for both organisations as well as employees. For individuals, it is critical to realise that their career is their responsibility, they must strive to expand their horizons and grasp more than what their role is offering them. Even before your name, people are keen to know, 'What do you do for a living?'. We, as a society, haven't been able to separate our personal identity from our jobs. Therefore, when a person loses their job, they also lose their identity. That is the reason why it is absolutely essential to create a mindset and an interest outside

one's job that will help one stay confident, positive, and open-minded. This way, even when they aren't earning, they would be doing something they enjoy and feel like they have aptly used their time as well as their ability.

As for organisations, the important lesson is to be agile. And by agile, we do not only mean acting and reacting to turbulent market trends. Instead, organisations ought to be mindful of the cost that comes along with following these trends. It is critical for them to deal with challenges in a manner that doesn't impact their promise to their employees, customers, suppliers, and other stakeholders in a big way.

***Sandeep Chaudhary** currently serves as CEO of PeopleStrong Technologies, a leader in HR Technology across Asia. He is an independent non-executive Director on the board of Restaurant Brands Asia Ltd. (Burger King) and is the former CEO of Aon across India and emerging markets.*