Q&A: What explains recent tech layoffs, and why should we be worried?

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Recent layoffs across the tech sector are an example of “social contagion” – companies are laying off workers because everyone is doing it, says Stanford business Professor Jeffrey Pfeffer. Credit: Jeffrey Pfeffer

Over recent months, tech companies have been laying workers off by the thousands. It is estimated that in 2022 alone, more than 120,000 people have been dismissed from their job at some of the biggest players in tech—Meta, Amazon, Netflix, and soon Google—and smaller firms and starts ups as well. Announcements of cuts keep coming.

What explains why so many companies are laying large numbers of their workforce off? The answer is simple: copycat behavior, according to Jeffrey Pfeffer, a professor at the Stanford Graduate School of Business.

Here, Stanford News talks to Pfeffer about how the workforce reductions that are happening across the tech industry are a result mostly of "social contagion": Behavior spreads through a network as companies almost mindlessly copy what others are doing. When a few firms fire staff, others will probably follow suit. Most problematic, it's a behavior that kills people: For example, research has shown that layoffs can increase the odds of suicide by two times or more.

Moreover, layoffs don't work to improve company performance, Pfeffer adds. Academic studies have shown that time and time again, workplace reductions don't do much for paring costs. Severance packages cost money, layoffs increase unemployment insurance rates, and cuts reduce workplace morale and productivity as remaining employees are left wondering, "Could I be fired too?"

For over four decades, Pfeffer, the Thomas D. Dee II Professor of Organizational Behavior, has studied hiring and firing practices in companies across the world. He's met with business leaders at some of the country's top companies and their employees to learn what makes—and doesn't make—effective, evidence-based management. His recent book, "Dying for a Paycheck: How Modern Management Harms Employee Health and Company Performance–And What We Can Do About It," (Harper Business, 2018) looks at how management practices, including layoffs, are hurting, and in some cases, killing workers.

This interview has been edited for length and clarity.

Why are so many tech companies laying people off right now?

The tech industry layoffs are basically an instance of social contagion, in which companies imitate what others are doing. If you look for reasons for why companies do layoffs, the reason is that everybody else is doing it. Layoffs are the result of imitative behavior and are not particularly evidence-based.

I've had people say to me that they know layoffs are harmful to company well-being, let alone the well-being of employees, and don't accomplish much, but everybody is doing layoffs and their board is asking why they aren't doing layoffs also.

Do you think layoffs in tech are some indication of a tech bubble bursting or the company preparing for a recession?

Could there be a tech recession? Yes. Was there a bubble in valuations? Absolutely. Did Meta overhire? Probably. But is that why they are laying people off? Of course not. Meta has plenty of money. These companies are all making money. They are doing it because other companies are doing it.

What are some myths or misunderstandings about layoffs?

Layoffs often do not cut costs, as there are many instances of laid-off employees being hired back as contractors, with companies paying the contracting firm. Layoffs often do not increase stock prices, in part because layoffs can signal that a company is having difficulty. Layoffs do not increase productivity. Layoffs do not solve what is often the underlying problem, which is often an ineffective strategy, a loss of market share, or too little revenue. Layoffs are basically a bad decision.

Companies sometimes lay off people that they have just recruited—oftentimes with paid recruitment bonuses. When the economy turns back in the next 12, 14, or 18 months, they will go back to the market and compete with the same companies to hire talent. They are basically buying labor at a high price and selling low. Not the best decision.

People don't pay attention to the evidence against layoffs. The evidence is pretty extensive, some of it is reviewed in the book I wrote on human resource management, The Human Equation: Building Profits by Putting People First. If companies paid attention to the evidence, they could get some competitive leverage because they would actually be basing their decisions on science.

You've written about the negative health effects of layoffs. Can you talk about some of the research on this topic by you and others?

Layoffs kill people, literally. They kill people in a number of ways. Layoffs increase the odds of suicide by two and a half times. This is also true outside of the United States, even in countries with better social safety nets than the U.S., like New Zealand.

Layoffs increase mortality by 15–20% over the following 20 years.

There are also health and attitudinal consequences for managers who are laying people off as well as for the employees who remain. Not surprisingly, layoffs increase people's stress. Stress, like many attitudes and emotions, is contagious. Depression is contagious, and layoffs increase stress and depression, which are bad for health.

Unhealthy stress leads to a variety of behaviors such as smoking and drinking more, drug taking, and overeating. Stress is also related to addiction, and layoffs of course increase stress.

What was your reaction to some of the recent headlines of mass layoffs, like Meta laying off 11,000 employees?

I am concerned. Most of my recent research is focused on the effect of the workplace on human health and how economic insecurity is bad for people. This is on the heels of the COVID pandemic and the social isolation resulting from that, which was also bad for people.

We ought to place a higher priority on human life.

If layoffs are contagious within an industry, could it then spread across industries, leading to other sectors cutting staff?

Of course, it already has. Layoffs are contagious across industries and within industries. The logic driving this, which doesn't sound like very sensible logic because it's not, is people say, "Everybody else is doing it, why aren't we?"

Retailers are pre-emptively laying off staff, even as final demand remains uncertain. Apparently, many organizations will trade off a worse customer experience for reduced staffing costs, not taking into account the well-established finding that is typically much more expensive to attract new customers than it is to keep existing ones happy.

Are there past examples of contagious layoffs like the one we are seeing now, and what lessons were learned?

After the Sept. 11, 2001, terrorist attacks, every airline except Southwest did layoffs. By the end of that year, Southwest, which did not do any layoffs, gained market share. A.G. Lafley, who was the former CEO of Procter and Gamble, said the best time to gain ground on your competition is when they are in retreat—when they are cutting their services, when they are cutting their product innovation because they have laid people off. James Goodnight, the CEO of the software company SAS Institute, has also never done layoffs—he actually hired during the last two recessions because he said it's the best time to pick up talent.

Any advice to workers who may have been laid off?

My advice to a worker who has been laid off is when they find a job in a company where they say people are their most important asset, they actually check to be sure that the company behaves consistently with that espoused value when times are tough.

If layoffs don't work, what is a better solution for companies that want to mitigate the problems they believe layoffs will address?

One thing that Lincoln Electric, which is a famous manufacturer of arc welding equipment, did well is instead of laying off 10% of their workforce, they had everybody take a 10% wage cut except for senior management, which took a larger cut. So instead of giving 100% of the pain to 10% of the people, they give 100% of the people 10% of the pain.

Companies could use economic stringency as an opportunity, as Goodnight at the SAS Institute did in the 2008 recession and in the 2000 tech recession. He used the downturn to upgrade workforce skills as competitors eliminated jobs, thereby putting talent on the street. He actually hired during the 2000 recession and saw it as an opportunity to gain ground on the competition and gain market share when everybody was cutting jobs and stopped innovating. And it is [an opportunity]. Social media is not going away. Artificial intelligence, statistical software, and web services industries—none of these things are going to disappear.

Provided by Stanford University

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