Layoffs in a likely recession this year could be determined by software programs

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Don't blame your boss if you get laid off in a recession this year.

Blame Big Data.

A whopping 98% of human resources leaders say they'll rely at least partly on software programs, or algorithms, to decide whom to cut if they have to conduct layoffs in an anticipated recession in 2023, according to a recent survey by Capterra, which helps small businesses choose software.

That's up from just 2% of large companies that turned to Big Data in the Great Recession of 2007-09, according to Capterra, a unit of tech research giant Gartner. In November, Capterra surveyed 300 HR managers at mostly larger firms as well as some small to mid-size businesses.

"Over the past 15 years, the market for HR software has exploded," says Brian Westfall, Capterra's principal HR analyst. Company officials "are relying on the systems...to make a ton of decisions and that will extend into the layoff decisions they make."

HR tech companies say the software removes human biases from layoff decision-making as it quickly crunches a variety of employee metrics, including skills, performance and productivity and even projects the outcome if certain employees are chopped while others are retained.

But critics say the algorithms can also make overly simplistic judgments, missing nuances that a human being would take into account, such as an overbearing supervisor who makes it harder for an employee to perform well.

How do companies decide on layoffs?

Thirty-five percent of the HR executives surveyed said they'll be guided mostly or exclusively by Big Data as they cut labor costs. Twenty percent say their decisions will be driven mostly or solely by "gut instinct," meaning a person will make choices with little or no assistance from a computer.

Nearly half are taking a middle ground approach. Forty-six percent of the HR professionals say they'll rely equally on data and gut instinct.

Tech companies such as Amazon, Facebook parent company Meta and Twitter likely already have relied heavily on the software as they laid off tens of thousands of employees—a total of about 192,000,according to layoffs.fyi—in 2022 and early 2023, Westfall says. Last week, Microsoft announced 10,000 job cuts and Google, 12,000.

Companies including Amazon, Twitter and Meta declined comment or didn't respond to messages about their use of algorithms to let employees go. Business Insider reported that Meta contractors were told in June they were picked by 'an algorithm' to be laid off.

Businesses are turning to the programs not just to figure out whom to target in any layoffs but to decide how to reduce labor costs—for example, by cutting employees' hours versus letting workers go, Westfall says.

As companies have increasingly deployed HR software in recent years, algorithms that help them cull job applicants and decide whom to hire have been more widely deployed than layoff programs, Westfall says.

Are layoffs coming in 2023?

But the mild recession that most economists expect this year will help the job-cutting programs catch up, he says. Although some layoffs are always going onas companies and industries go through ups and downs, the anticipated downturn will mark the first chance for businesses to use the layoff software on a large scale, Westfall says. Economists say hundreds of thousands of workers could be laid off in a slump.

The COVID-19 recession of 2020, he says, triggered millions of layoffs as restaurants, shops and other businesses closed but those sweeping cuts were made abruptly with less agonizing over who to let go. And many employees were quickly rehired.

"The consequences of (using the technology) have never been greater" than they will be this year, Westfall says.

HR tech companies say businesses typically use the software as a tool but managers make final decisions. The programs look at employees' performance ratings, skill sets, tenure at the company, titles and engagement levels, among other factors, executives at the firms say.

"Basing layoffs on data rather than gut feelings helps remove bias and increase decision making that is best for the long-term health of the company," says Anita Grantham, head of HR at BambooHR, a software company. "Having data across the entire employee experience can make layoff decisions more informed and equitable."

Recently, two women who lost their jobs at Twitter when billionaire Elon Musk took over sued the company in federal court, claiming last fall's sudden mass layoffs at the company disproportionately affected female employees.

Algorithms can prevent that kind of alleged discrimination, the software company executives say.

There's no 'layoff button'

Cliff Jurkiewicz, vice president of global strategy for Phenom, another HR software company, says its technology "does not have a layoff button" that makes downsizing decisions but rather provides intelligence that managers can use to make their own calls.

Agreeing is Jonathan Reynolds, CEO of Titus Talent Strategies, a recruiting firm that also uses technology to help businesses make layoff decisions.

But Reynolds makes no apologies for strongly relying on HR software called Etho for layoff recommendations to provide "clear, quantifiable and objective evaluations," both for Titus's clients and the recruiting agency itself.

"Who didn't perform?" Reynolds says. "Isn't that a fair question to ask?"

Titus, he says, uses the program to cut 3% of its own workforce of about 200 employees at the end of each year, a strategy that will be more critical if there's a downturn in 2023.

"It told us who wasn't giving us at least 100%," Reynolds says. "Anyone not performing has to go and find another job."

Westfall, however, worries that at least some HR managers will reflexively follow the software's recommendations. Yet bad performance reviews could mean an employee has a biased manager or lacks adequate resources. Or it may be the software isn't tracking the correct metrics, he says.

An employee may also be going through a family crisis, Reynolds says. Software, he says, "doesn't always tell the whole story—people decisions are made by people."

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